S.E.C. RULE 15c2-12
ANNUAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006

The State of California (the "State"), acting by and through the State Treasurer of the State of California, hereby provides its annual report for the fiscal year ended June 30, 2006 in connection with the following:

Bond Issues

State Public Works Board of the State of California Lease Revenue Bonds (the "Bonds") as listed on the attached Exhibit 1. Also listed on Exhibit 1 are the dates of the Continuing Disclosure Agreements (the "Disclosure Agreements") executed by the State in connection with each issue of the Bonds and the dated dates for each issue.

Note: The base CUSIP numbers provided in Exhibit 1 are for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

Annual Report

The State's "annual report" (as defined in the Disclosure Agreements for the Bonds) for the fiscal year ended June 30, 2006 consists of:

1. The Audited Basic Financial Statements of the State for fiscal year ended June 30, 2006 which is incorporated herein attached as Exhibit 2.

2. The financial information is contained in Appendix A, which is incorporated herein attached as Exhibit 3. The Appendix A as attached is an appendix to the Preliminary Official Statement, dated March 21, 2007, with respect to State of California General Obligation Refunding Bonds.

3. Information relating to the outstanding debt of the State Public Works Board as set forth in Exhibit 4 attached hereto.

4. Financial information relating to The Regents of the University of California for the fiscal year ended June 30, 2006, including the table entitled "Obligations Issued and Outstanding" as set forth in Exhibit 5 attached hereto.

5. Table entitled "University of California Current Funds Expenditures and Resources Utilized," is no longer available from The Regents of the University of California. The University's financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB). This change in standards has resulted in a revision of the financial tables and statements that are required for the Annual Report. During 2002, the University adopted GASB Statement *No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges*

and Universities. The information contained in the table entitled "University of California Current Funds Expenditures and Resources Utilized," is available from various other tables in the Annual Financial Report contained in Exhibit 6 attached hereto. This includes, Facts in Brief (Includes Operating Expenses by Function), page 13, The University's Results of Operations, page 39 Statement of Revenues, Expenses and Changes in Net Assets, and page 91 Campus Facts in Brief 2006. The Regents of the University of California's most recent audited financials are also contained in the Annual Financial Report.

6. Information relating to the Governmental Cost Funds Transportation Funds Statement of Operations and Governmental Cost Funds Transportation Funds Balance Sheet as set forth in Exhibit 7 attached hereto.

7. The Board confirms that the insurance required by each of the Facility Leases relating to each issue of the Bonds listed on the attached Exhibit 1 is in effect.

Other Matters

This annual report is provided solely for purposes of the Disclosure Agreements. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists, which may have a bearing on the State's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this annual report should be construed as a prediction or representation about future financial performance of the State.

The information provided herein may relate to bonds or other obligations of the Board in addition to the ones listed above.

Dated: March 30, 2007

State of California

Original signed by Lai Louie
Deputy State Treasurer
For State Treasurer, Bill Lockyer

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Trustees of the California State University) 2006 Series A (Various California State University Projects)	11/1/2006	11/8/2006
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2006 Series A (San Diego Office Building Replacement)	4/1/2006	4/25/2006
State Public Works Board of the State of California Lease Revenue Bonds (The Trustees of the California State University) 2006 Series B (San Marcos Academic Hall II)	4/1/2006	4/25/2006
State Public Works Board of the State of California Lease Revenue Bonds (Department of Forestry and Fire Protection) 2006 Series C (Various Forestry Projects)	4/1/2006	4/25/2006
State Public Works Board of the State of California Lease Revenue Bonds (Department of Justice) Series 2006 Series D (Various Replacement Laboratory Projects)	4/1/2006	4/1/2006
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2006 Series F (California State Prisons - Monterey County (Soledad II))	11/1/2006	11/8/2006
State Public Works Board of the State of California Lease Revenue Bonds (The Trustees of the California State University) 2006 Series G (Physical Science Building, Wing A, Los Angeles Campus)	12/1/2006	12/6/2006
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2006 Series H (Various Correctional Projects)	12/1/2006	12/6/2006
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2006 Series I (Atascadero State Hospital Multi-Purpose Building)	12/1/2006	12/6/2006
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 2005 Series E (Various Community College Projects)	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2005 Series J (California State Prison-Corcoran II)	11/1/2005	11/16/2005

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2005 Series H (California State Prison-Ser H Madera)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2005 Series G (Various Projects)	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2005 Series A (Butterfield State Office Complex)	4/1/2005	4/12/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services - Food and Agriculture) 2005 Series F	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Justice) Series 2005 Series I (Department of Justice Building)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Health Services) 2005 Series K (Richmond Lab)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Health Services) 2005 Series B (Richmond Lab Phase III Office Building)	4/1/2005	4/12/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Forestry and Fire Protection) 2004 Series G (Various Forestry Projects)	12/1/2004	12/2/2004
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 2004 Series B (Various Community College Projects)	4/1/2004	4/21/2004
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2004 Series A (Coalinga State Hospital)	4/1/2004	4/21/2004
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2004 Series E (California State Prison-Lassen County, Susanville)	4/1/2004	4/7/2004
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2004 Series D (California State Prison-Fresno County, Coalinga)	4/1/2004	4/7/2004

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2003 Series C (California State Prison - Kern County at Delano II)	12/1/2003	12/2/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2003 Series D (Butterfield State Office Complex)	12/1/2003	12/2/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2003 Series B (Patton State Hospital EB Building Improvements)	4/1/2003	4/9/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2002 Series B (Various Correctional Projects)	12/1/2002	12/5/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series A (Capitol East End Complex - Blocks 171-174 & 225)	12/1/2002	12/5/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series C (Mission Valley State Office Building)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series B (Teale Data Center Project)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2002 Series A (Ten Administrative Segregation Housing Units)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2001 Series B (Various Correctional Projects)	12/1/2001	12/5/2001
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2001 Series A (Hospital Addition at Atascadero State Hospital)	12/1/2001	12/5/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series B (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	3/1/2001	3/28/2001

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series A (California State Prison - Lassen County, Susanville)	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2000 Series E (Block 224 State Parking Garage)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Justice) Series 2000 Series D (Various Replacement Laboratory Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (California Highway Patrol) 2000 Series C (Various Are Office Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Youth Authority) 2000 Series B (Various Correctional Projects)	6/1/2000	6/28/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2000 Series A (Various Correctional Projects)	6/1/2000	6/28/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Veterans Affairs of the State of California) 1999 Series A (Southern California Veterans Home - Chula Vista Facility)	12/1/1999	12/2/1999
State Public Works Board of the State of California Lease Revenue Bonds (California Department of Health Services) 1999 Series A (Richmond Laboratory Project)	10/1/1999	10/1/1999
State Public Works Board of the State of California Lease Revenue Bonds 1999 Series B (Various Community College Projects)	6/1/1999	6/29/1999
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1999 Series A (Various Community College Projects)	4/1/1999	4/29/1999
State Public Works Board of the State of California Energy Efficiency Revenue Bonds Series 1998A	11/1/1998	11/1/1998
State Public Works Board of the State of California Lease Revenue Bonds 1998 Series A (Department of Forestry and Fire Protection Telecommunication Towers and Vaults)	11/1/1998	11/17/1998

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series C (California State Prison-Monterey County (Soledad II))	11/1/1998	11/5/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Department of Justice Building)	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series D	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series C	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Library and Courts Annex Building Complex)	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Franchise Tax Board Central Office Project - Phase II)	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series B (California State Prison - Imperial County)	3/1/1998	4/15/1998

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections Emergency Bed Program) 1998 Series A	3/1/1998	3/1/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Veterans Affairs) 1997 Series A (Southern California Veterans Home - Barstow Facility)	12/1/1997	12/10/1997
State Public Works Board of the State of California Lease Revenue Bonds 1997 Series A (California Science Center)	12/1/1997	12/1/1997
State Public Works Board of the State of California Lease Revenue Bonds (Trustees of The California State University) 1997 Series C (Various California State University Projects)	11/1/1997	11/13/1997
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1997 Series A (Various Community College Projects)	4/1/1997	4/1/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1997 Series D (California State Prisons - Imperial County)	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series A	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series B	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series C (California State Prisons - Imperial County)	11/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series D (Various Community College Projects)	10/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1996 Series A (Secretary of State and State Archives Building Complex)	10/1/1996	11/6/1996

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series C (Various Community College Projects)	9/1/1996	10/22/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series B (Various Community College Projects)	9/1/1996	10/10/1996
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1996A	9/1/1996	9/18/1996
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 1996 Series A (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	4/1/1996	5/14/1996
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1996 Series A (Various Community College Projects)	4/1/1996	4/1/1996
State Public Works Board of the State of California Lease Revenue Bonds (The Trustees of The California State University) 1995 Series A (Various California State University Projects)	4/1/1995	5/4/1995
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1995A	4/1/1995	4/19/1995

The base CUSIP numbers for the State Public Works Board issues listed above, except for Energy Efficiency Revenue Bonds, are 130684 - _ _ _, 13068G - _ _ _, and 13068H - _ _ _.

The base CUSIP number for the State Public Works Board of the State of California Energy Efficiency Revenue Bonds is 130677 - _ _ _.

Exhibit 4

1. Information relating to outstanding debt of the State Public Works Board

    a) As of March 1, 2007, the Board had unused authorization to issue an additional \$3,063,613,570 of lease revenue bonds. As of that date, the Pooled Money Investment Board had approved interim loans relating to these authorized projects totaling \$1,134,199,375.

    b) The total outstanding bonds of the Board secured by the Master Indenture Reserve Fund totaled \$5,742,368,874. The principal outstanding balance of the Master Indenture Reserve Fund as of March 1, 2007 totaled \$123,583,424.

2. Additional information relating to certain issues of bonds covered by this Annual Report:

    a) Issue: **State Public Works Board of the State of California Lease Revenue Bonds, 1997 Series A (California Science Center)**

    Description: The following facts are provided related to the State Public Works Board of the State of California Lease Revenue Bonds, 1997 Series A (California Science Center) (the "Bonds"). These facts are intended to be informational only and are not intended to imply a material event has occurred. The Bonds, \$37,770,000, financed construction of the main museum building (the "Phase I Facility").

    Pursuant to the Food and Agricultural Code Section 4101.3, the California Science Center has entered into a site lease and lease purchase agreement with the California Science Center Foundation, a California Nonprofit Corporation, for the purpose of the Foundation developing, constructing, equipping, furnishing, and funding the project known as Phase II of the California Science Center. The Phase II Facility will be situated on a portion of parcel, approximately 11,000 square feet that is encumbered by the Phase I Site Lease and Facility Lease. In order to facilitate financing of the Phase II Facilities, the State Public Works Board and the California Science Center amended the Site Lease and Facility Lease to release this portion of parcel. However, the Site Lease provides that no such amendment shall materially adversely affect the owners of the Phase I Bonds and there exists in the remaining parcel sufficient value to ensure that the owners of the Phase I Bonds are not materially adversely affected. The California Science Center will continue to operate and maintain the Phase I Facility. The construction of the Phase II Facility will not result in an abatement of the Phase I rental payment.

b) Issue: **State Public Works Board of the State of California Lease Revenue Bonds (California Youth Authority), Series 2000 B (Various Correctional Projects)**

Description: The following facts are provided related to the State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2000 Series B (Various Correctional Projects) (the "Bonds"). These facts are intended to be informational only and are not intended to imply a material event has occurred. Approximately $2.6 million of the proceeds of the Bonds were used to pay the costs of a single-story maintenance building located at the Fred C. Nelles Youth Correctional Facility located in Whittier, California (the "Facility").

As previously reported, the Governor's proposed budget for fiscal year 2004-05 reflected the closure of the Facility, effective June 30, 2004. The Budget Act for that fiscal year also reflected this closure and the Facility was closed. On September 30, 2004, legislation was enacted that authorized the Director of the Department of General Services ("DGS") to sell the Facility with the approval of the State Public Works Board (the "Board").

As previously reported, DGS was initiating surplus property procedures to sell the Facility. This Facility is no longer being considered surplus and DGS has stopped all surplus property procedures. The Department of Corrections and Rehabilitation (the "Department"), is evaluating the Facility for future use as a medical facility or a training academy.

The Department as successor to the California Youth Authority, continues to maintain the Facility and exercise jurisdiction and control over it. The State Budget continues to provide for the full and timely payments of all base rent payable to the Board with respect to the Facility.

The Department will provide further information concerning the Facility as it becomes available.

EXHIBIT 5

THE UNIVERSITY OF CALIFORNIA - INDEBTEDNESS OF THE REGENTS

The following table lists the outstanding public indebtedness of The Regents as of June 30, 2006.

OBLIGATIONS ISSUED AND OUTSTANDING
as of June 30, 2006 (dollars in thousands)

	Amount Issued	Amount Outstanding
General Revenue Bonds		
2003 Series A	$914,270	$839,695
2003 Series B	385,835	347,040
2005 Series C	252,270	252.270
2005 Series D	31,160	31,160
2005 Series E	111,610	107,195
2005 Series F	446,815	443,965
2004 Series G	308,450	308,185
2004 Series H	23,830	23,830
2006 Series I	20,540	20,540
Limited Project Revenue Bonds, 2004 Series A	371,590	371,590
Limited Project Revenue Bonds, 2004 Series B	600,480	600,480
Limited Project Revenue Bonds, 2004 Series C	15,970	15,970
Multiple Purpose Projects		
1991 Series: Refunding Revenue Bonds Series E	283,930	261,625
Revenue Bonds Series F	298,660	6,890
Revenue Bonds Series G	64,115	4,165
Revenue Bonds Series H	109,185	4,750
Revenue Bonds Series I	24,020	2,940
Revenue Bonds Series J	64,060	8,140
Revenue Bonds Series K	294,045	274,870
Revenue Bonds Series L	65,220	47,875
Revenue Bonds Series M	131,925	124,915
Revenue Bonds Series N	44,825	35,310
Revenue Bonds Series O	346,020	340,865
Revenue Bonds Series P	19,850	18,840
Revenue Bonds Series Q	364,255	358,335
Hospital Revenue Bonds		
UCLA Medical Center, Series 2002	32,420	30,420
UCLA Medical Center, Series 2004 A	165,000	165,000
UCLA Medical Center, Series 2004 B	91,165	91,165
UC Davis Medical Center, Series 1996	345,880	7,695
UC Davis Medical Center, Series 2003	347,775	339,600
UCSF-Stanford Health Care, 1998 Series A	104,685	94,895
UC San Diego Medical Center, Series 2000	69,000	57,335
Research Facilities Revenue Bonds		
1998 Refunding Series C	89,015	83,845
1998 Series D	49,110	1,125
2001 Series E	122,800	120,420
	Amount Issued	**Amount Outstanding**
Certificates of Participation		
Various Energy Projects: 1999 Series A	60,465	2,480
1999 Series B	10,390	1,280
1999 Series C	10,815	4,870
2002 Series A	45,455	42,185
Commercial Paper		
Series A	430,000	430,000
Series B	120,000	120,000
Total	7,686,905	6,443,755

Source: UCOP, External Finance

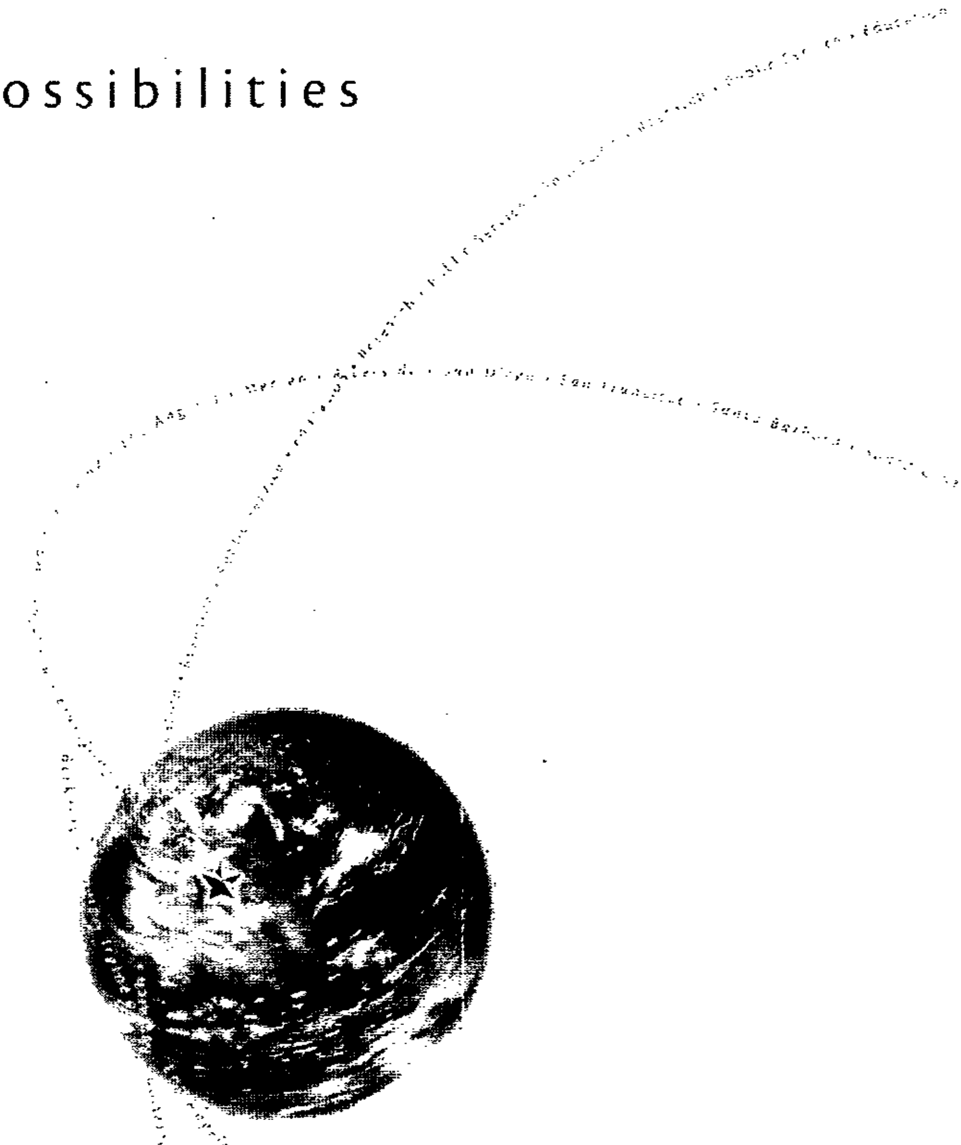
The State Public Works Board of the State of California (the "SPWB") has issued various lease revenue bonds, maturing from 2006 through 2030, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University's operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of June 30, 2006:

State Public Works Board of the State of California	As of June 30, 2006 **Amount Outstanding (in 000's)**
High Technology Facilities Lease Revenue Bonds:	
1986 Series A (San Diego Facility)	0
1986 Series A (Irvine Facility)	0
1990 Series A (Various University of California Projects)	40,690
Lease Revenue Bonds:	
1992 Series A (Various University of California Projects)	0
1993 Series B (Various University of California Projects)	90,180
1994 Series A (Various University of California Projects)	15,130
1994 Series B (Various University of California Projects)	6,240
1997 Series C (Various University of California Projects)	128,655
2002 Series A (UCLA Replacement Hospital)	155,430
2003 Series A (UC Davis MIND Institute)	30,270
2004 Series A (UC Davis Medical Center Tower II)	16,950
2004 Series F (Various University of California Projects)	134,665
2005 Series C (Various University of California Institute Projects)	125,795
2005 Series D (Various University of California Projects)	342,660
2005 Series L (Various University of California Projects)	156,210
Lease Revenue Refunding Bonds:	
1993 Series A (Various University of California Projects)	324,245
1997 Series A (Various University of California Projects)	123,305
1997 Series B (Various University of California Projects)	14.185
1998 Series A (Various University of California Projects)	36,780
1998 Series B (Various University of California Projects)	25,960
1998 Series C (Various University of California Projects)	10,110
1998 Series F (Various University of California Projects)	10,635
2001 Series A (Various University of California Projects)	32,140
Total Outstanding	$1,820,235

Source: UCOP, External Finance

EXHIBIT 6

A world of possibilities



University of California
It starts here

Annual Financial Report 2005-06

FACTS IN BRIEF

	2006	2005	2004	2003	2002
STUDENTS					
Undergraduate fall enrollment	159,066	158,431	159,486	154,979	148,024
Graduate fall enrollment	50,014	49,478	48,905	46,318	43,879
Total fall enrollment	**209,080**	**207,909**	**208,391**	**201,297**	**191,903**
University Extension enrollment	302,388	332,842	338,084	353,843	389,361
FACULTY AND STAFF (full-time equivalents)	**123,997**	**121,726**	**120,786**	**118,533**	**114,282**
SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT RETIREMENT PLAN PARTICIPATION)					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees, net [1]	$ 1,662,948	$ 1,557,828	$ 1,377,923	$ 1,096,609	$ 1,014,124
Grants and contracts, net	4,144,576	3,976,549	3,826,641	3,531,343	3,209,669
Medical centers, educational activities and auxiliary enterprises, net	6,221,648	5,742,695	5,274,553	5,010,040	4,520,033
State educational, financing and capital appropriations	2,939,539	2,773,037	2,972,879	3,247,831	3,438,417
Private gifts, net	624,052	536,995	544,853	485,242	358,315
Capital gifts and grants, net	166,502	217,218	319,852	389,852	249,166
Department of Energy laboratories	4,231,922	4,146,261	4,115,635	4,173,017	3,595,374
OPERATING EXPENSES BY FUNCTION					
Instruction	3,212,552	3,046,225	2,873,614	2,752,994	2,604,866
Research	3,035,949	2,916,534	2,791,777	2,623,300	2,418,040
Public service	400,844	371,209	394,066	426,696	444,923
Academic support	1,139,201	1,014,002	1,050,099	1,042,932	986,728
Student services	470,283	436,050	415,218	406,380	392,502
Institutional support	764,165	652,646	603,220	649,290	624,082
Operation and maintenance of plant	451,882	415,096	393,765	367,181	385,273
Student financial aid [2]	363,635	369,424	358,048	358,711	317,888
Medical centers	3,675,271	3,423,315	3,176,373	3,070,140	2,749,942
Auxiliary enterprises	719,551	695,310	646,458	610,794	573,087
Depreciation and amortization	997,023	954,878	899,811	837,520	754,042
Department of Energy laboratories	4,197,685	4,112,077	4,082,089	4,139,681	3,563,157
Other	88,662	72,644	61,315	45,011	25,299
FINANCIAL POSITION					
Investments, at fair value	13,244,165	12,074,900	11,557,368	11,031,876	10,324,370
Capital assets, at net book value	16,665,001	15,530,305	14,167,202	12,653,546	11,362,053
Outstanding debt, including capital leases	8,876,248	7,945,285	6,912,989	6,354,193	5,492,118
Net assets	20,400,023	18,977,617	17,794,394	16,447,893	15,251,124
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	387,814	332,474	407,661	280,364	
PRIMARY EXPENSES					
Grants to campuses	416,248	343,388	390,254	293,009	
FINANCIAL POSITION					
Investments, at fair value	3,363,998	2,950,090	2,597,250	2,223,046	
Pledges receivable, net	429,534	426,650	452,543	402,681	
Net assets	3,674,869	3,249,942	2,930,352	2,507,231	
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	193,329	188,790	184,783	179,636	173,343
Retirees and beneficiaries currently receiving payments	45,442	41,477	39,738	37,867	36,165
PRIMARY REVENUE SOURCES					
Contributions	$ 1,024,262	$ 923,788	$ 809,433	$ 698,904	$ 643,404
Investment income, net	1,718,593	1,505,731	1,298,036	1,189,429	1,341,867
Net appreciation (depreciation) in the fair value of investments	2,140,449	3,180,646	4,564,427	1,067,838	(5,382,805)
PRIMARY EXPENSES					
Benefit payments	1,446,048	1,300,129	1,127,476	993,644	949,355
Participant withdrawals	720,181	392,473	332,567	228,266	271,291
FINANCIAL POSITION					
Investments, at fair value	53,866,319	51,372,279	47,003,436	42,324,557	41,006,288
Members' defined pension plan benefits	43,440,054	41,935,273	39,263,399	35,398,263	34,514,561
Participants' defined contribution plan benefits	12,472,520	11,295,257	10,076,614	8,757,931	7,937,243
Actuarial value of assets	41,972,000	41,085,000	41,293,000	41,429,000	41,649,000
Actuarial accrued liability	40,302,000	37,252,000	35,034,000	32,955,000	30,100,000

Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

[1] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net assets.

[2] Includes only student aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2006, with selected comparative information for the years ended June 30, 2005 and 2004. Certain revisions in classification for comparability have been made to the prior year information in order to correspond to the current year presentation. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2004, 2005, 2006, 2007, etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), the University of California campus foundations (campus foundations) and the University of California Retirement System (the UCRS) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' fiduciary net assets and statements of changes in plans' fiduciary net assets, present the financial position and operating activities for the UCRS. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research and public service. The University has annual resources of over $20 billion and encompasses ten campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved directly or indirectly in the operation and management of three national laboratories for the U.S. Department of Energy.

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to the health sciences.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 15 health sciences schools on six campuses. They include five medical, two dental, two nursing, two public health and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University.

Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, on nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers more than 18,000 self-supporting courses statewide and in several foreign countries.

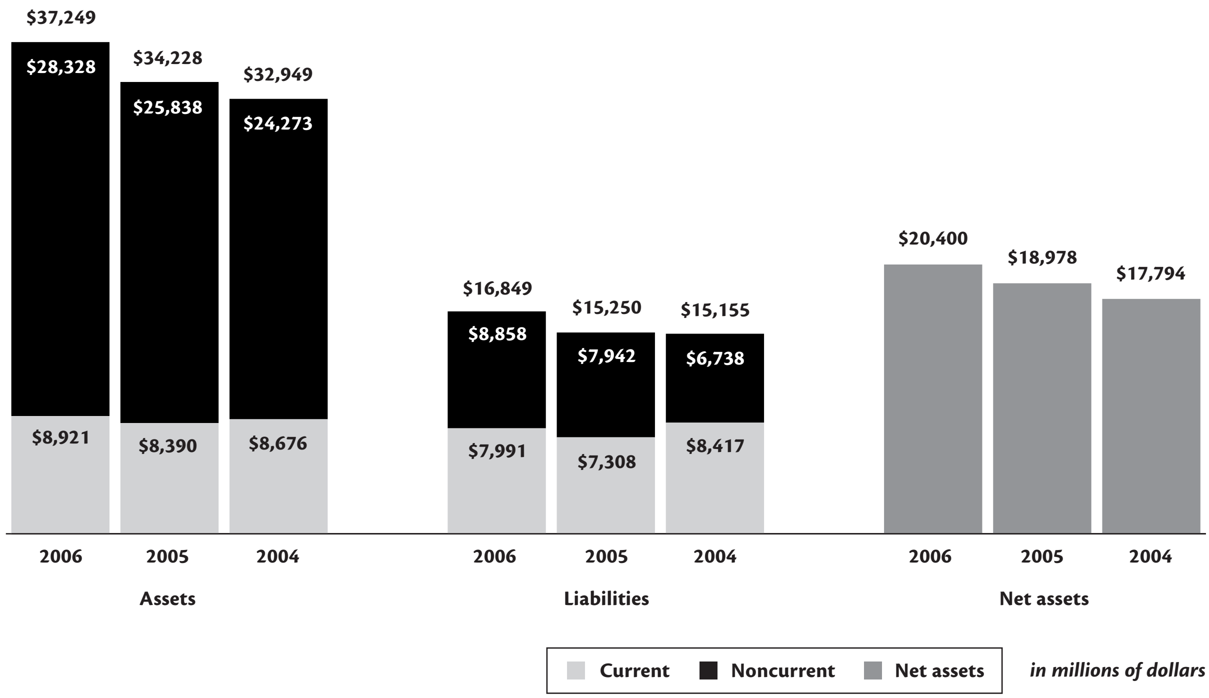
National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory and the Lawrence Livermore National Laboratory in California. The University is a member in the Los Alamos National Security, LLC (LANS), a joint venture that operates and manages the Los Alamos National Laboratory (LANL) in New Mexico. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

Adoption of New Accounting Standards

The University's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB).

During 2006, the University adopted GASB Statement No. 47, *Accounting for Termination Benefits*. Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted. The effect of the implementation of GASB Statement No. 47 was not significant on the University's net assets or changes in net assets in 2006 and there was no effect in 2005.

The University's Financial Position



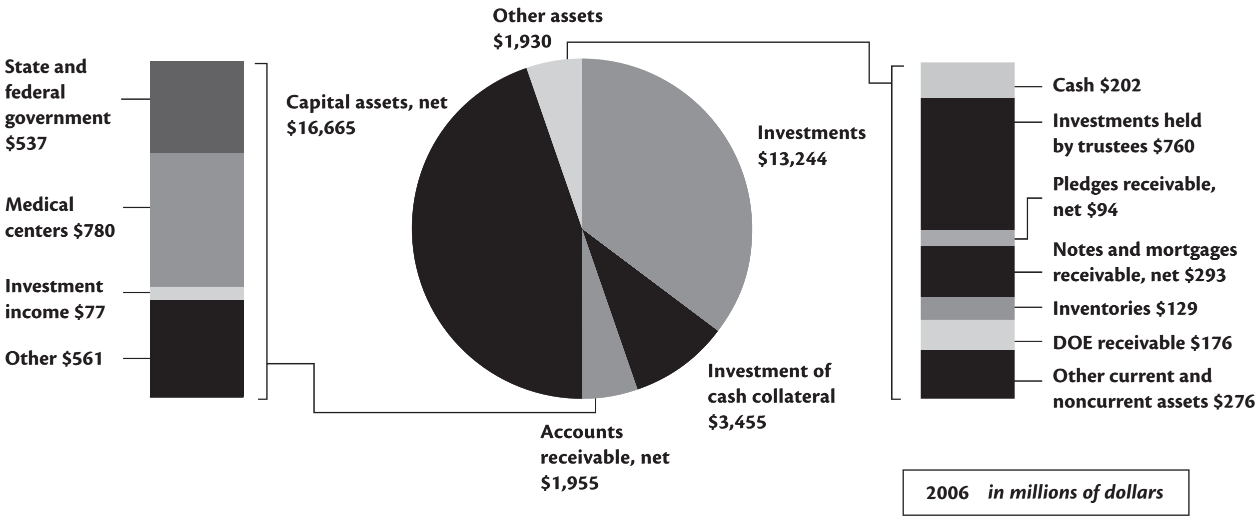
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2006, the University's assets were over $37 billion, liabilities were nearly $17 billion and net assets were over $20 billion, an increase of $1.42 billion from 2005. Net assets increased by $1.18 billion at the end of 2005 from 2004.

The major components of the assets, liabilities and net assets as of 2006, 2005 and 2004 are as follows:

(in millions of dollars)

	2006	2005	2004
ASSETS			
Investments	$ 13,244	$ 12,075	$ 11,557
Investment of cash collateral	3,455	2,578	3,614
Accounts receivable, net	1,955	1,746	1,778
Capital assets, net	16,665	15,530	14,167
Other assets	1,930	2,299	1,833
Total assets	**37,249**	**34,228**	**32,949**
LIABILITIES			
Debt, including commercial paper	8,876	7,945	6,913
Securities lending collateral	3,456	2,578	3,615
Other liabilities	4,517	4,727	4,627
Total liabilities	**16,849**	**15,250**	**15,155**
NET ASSETS			
Invested in capital assets, net of related debt	8,535	8,108	7,560
Restricted:			
Nonexpendable	873	823	776
Expendable	5,056	4,556	4,325
Unrestricted	5,936	5,491	5,133
Total net assets	**$20,400**	**$18,978**	**$17,794**

The University's Assets



The University's total assets have grown to $37.25 billion in 2006, compared to $34.23 billion in 2005 and $32.95 billion in 2004, primarily from increases in investments, including related securities lending activities, and capital assets, although a substantial portion of the capital assets were financed.

Investments *(in millions of dollars)*

The University's investments totaled $13.24 billion at the end of 2006, $4.02 billion classified as a current asset and $9.22 billion as a noncurrent asset. Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) with a maturity date within one year. Noncurrent investments are generally securities in the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in the STIP with a maturity date beyond one year. The University's investments, by investment pool, are as follows:

(in millions of dollars)

	2006	2005	2004
STIP	$ 7,424	$ 6,907	$ 6,842
GEP	5,390	4,738	4,339
Other	430	430	376
University investments	**$13,244**	**$12,075**	**$11,557**

Overall, investments increased by $1.17 billion in 2006. Investments in the STIP increased by $517 million primarily due to $293 million of STIP investment income and the routine timing of cash collections and payments, partially offset by $112 million of net depreciation in the fair value of STIP investments held at the end of 2006 as short-term interest rates continued to rise throughout the year. Investments in the GEP and other securities increased by $652 million as a result of $150 million of investment income, $426 million of net appreciation in the fair value of investments, and new permanent endowments and other participant contributions of $261 million, partially offset by $185 million of annual income distributions to be used for operating purposes in 2007.

Investments in 2005 of $12.08 billion grew from $11.56 billion in 2004, an increase of $518 million. Investments in the STIP increased by $65 million primarily due to $207 million of STIP investment income, partially offset by $56 million net depreciation in the fair value of STIP investments and the routine timing of cash collections and payments. Investments in the GEP and other securities increased by $453 million as a result of $130 million of investment income, $334 million of net appreciation in the fair value of investments, and new permanent endowments and other participant contributions of $176 million, partially offset by $187 million of annual income distributions used for operating purposes in 2006.

The total investment return for the GEP, representing the combined income plus net appreciation in the fair value of investments, for 2006 and 2005 was 11.6 percent and 10.3 percent, respectively. The investment return for the STIP during 2006 and 2005 was 4.2 percent and 3.6 percent, respectively.

The GEP continues its transition to multiple external managers with a range of equity strategies that include a higher allocation to private equity, absolute return and real estate investments.

Investment of cash collateral *(in millions of dollars)*

The University participates in a securities lending program incorporating securities owned by both the University and the UCRS as a means to augment income. It is managed as a single program. For financial reporting purposes, cash collateral and the associated liability related to securities specifically owned by either the University or the UCRS and lent to borrowers are directly reported in the appropriate entity. Cash collateral and the associated liability related to securities in investment pools jointly owned by both the University and the UCRS and lent to borrowers are allocated to each entity on the basis of their proportional ownership.

At the end of 2006, the investment of cash collateral increased from 2005 by $877 million. Two additional securities lending agents provided additional activity under the University's program. During 2006, interest rates were substantially above 2005 levels leading to a substantial increase in both gross income and rebates, and a slight increase in net income for the overall program.

At the end of 2005, there was a $1.04 billion decrease in the University's investment of cash collateral compared to 2004. Fewer domestic equity securities specifically owned by the University were loaned to borrowers for cash collateral at the end of the year. During 2005, interest rates were above 2004 levels leading to an increase in both gross income and rebates, although there was a slight reduction in net income for the overall program.

Accounts receivable, net *(in millions of dollars)*

Accounts receivable are from the state and federal governments, associated with medical centers for patient care, from investment activity and from others, including those related to private and local government grants and contracts and student tuition and fees.

Receivables increased by $209 million in 2006. Federal and state government receivables declined by $23 million as the University was reimbursed by the state for various construction projects, medical center receivables grew by $101 million due to growth in patient revenue, receivables for investment income grew by $9 million and various other receivables collectively increased by $122 million primarily due to the sale of investments ($41 million), private and local grants and contracts ($25 million), student tuition and fees ($14 million), insurance refunds ($15 million) and legal settlements ($12 million).

In 2005, accounts receivable decreased by $32 million from 2004. Federal and state government receivables and various other receivables collectively declined by $9 million and $35 million, respectively; however, medical center receivables grew by $12 million.

Capital assets, net *(in millions of dollars)*

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. Capital assets, net of accumulated depreciation, increased by $1.14 billion to $16.67 billion in 2006 and by $1.36 billion to $15.53 billion in 2005.

Capital assets activity consists of the following:

(in millions of dollars)

	2006	2005
Capital expenditures:		
Land and infrastructure	$ 98	$ 59
Buildings and improvements	1,660	1,418
Equipment	404	453
Libraries and special collections	132	124
Construction in progress, net	(135)	317
Capital expenditures	**2,159**	**2,371**
Depreciation and amortization expense	(997)	(955)
Asset disposals, net	(27)	(53)
Increase in capital assets, net	**$1,135**	**$1,363**

As has been the case in recent years, the required spending for capital assets continues at a brisk pace in order to provide the facilities necessary to accommodate current and future enrollment growth and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure and remote centers for educational outreach, research and public service. Overall capital spending declined by 8.9 percent in 2006, although a significant amount of the spending continues for projects still under construction. At the end of 2006, the cost of projects under construction decreased by $135 million bringing construction in progress at the end of the year to $3.18 billion, including $1.80 billion for campus projects and $1.38 billion for health care facilities. Construction in progress was $3.31 billion at the end of 2005 and $2.99 billion at the end of 2004.

Accumulated depreciation and amortization was $10.98 billion in 2006, $10.25 billion in 2005 and $9.92 billion in 2004. Depreciation and amortization expense was $997 million for 2006 and $955 million for 2005. Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

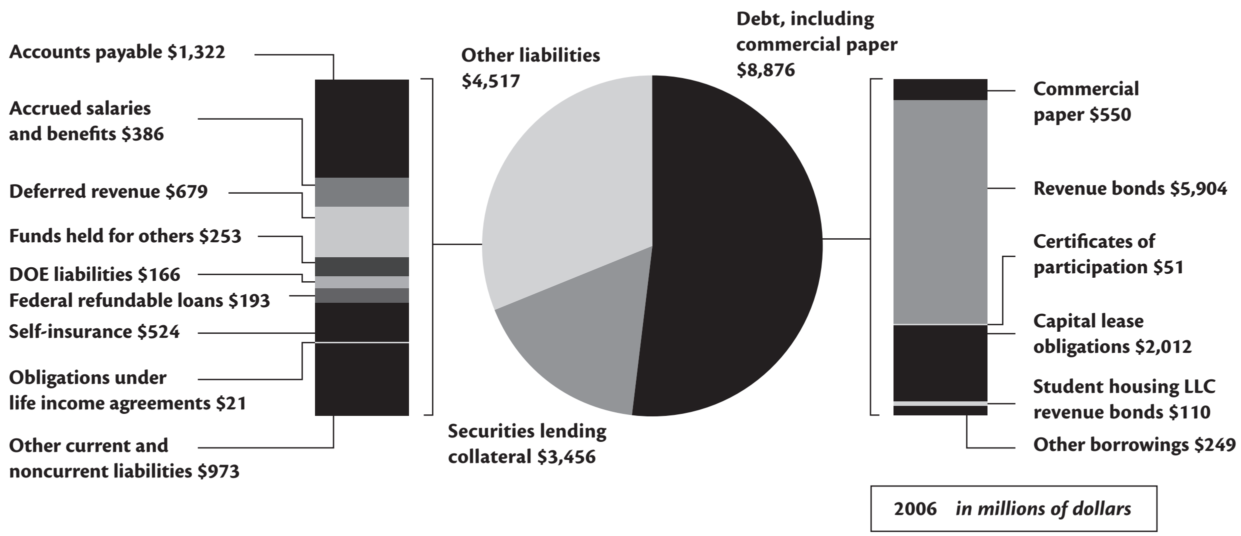
Other assets *(in millions of dollars)*

Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE, decreased by $369 million in 2006.

The receivable from the DOE declined by $265 million at the end of the year with the transition to LANS of the contract to manage and operate the LANL. Investments held by trustees also declined at the end of 2006 by $188 million. Trustee-held investments associated with self-insurance programs were $54 million higher as the contributions to the trusts were greater than claim payments made this year. However, trustee-held investments associated with the proceeds from long-term debt to be used to finance capital projects under construction declined by $242 million, $74 million related to proceeds from University debt offerings and $168 million for spending on capital projects supported by lease-purchase financing with the state of California. Proceeds from the sale of the state's lease revenue bonds are held and invested by the trustee, then distributed to the University as the projects are constructed. Partially offsetting these reductions to other assets was an increase in cash awaiting investment in the STIP of $38 million, prepaid health and welfare benefits of $13 million and deferred costs associated with the issuance of debt of $15 million.

In 2005, other assets increased by $466 million, mainly associated with cash and investments held by trustees. Cash grew by $93 million due to deposits-in-transit awaiting investment in the STIP. Investments held by trustees at the end of 2005 increased by $373 million. Trustee-held investments associated with self-insurance programs were $70 million higher and trustee-held investments associated with long-term debt grew by $303 million, $98 million related to proceeds from University debt offerings and $205 million for spending on capital projects supported by lease-purchase financing with the state of California.

The University's Liabilities



The University's liabilities grew to $16.85 billion in 2006, compared to $15.25 billion in 2005 and $15.16 billion in 2004, principally a result of debt issued to finance capital expenditures.

Debt, including commerical paper *(in millions of dollars)*

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans, leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing. The University's debt used to finance capital assets, including $550 million of commercial paper outstanding at the end of all three years, grew to $8.88 billion at the end of 2006, compared to $7.95 billion at the end of 2005 and $6.91 billion at the end of 2004. Capital lease obligations under lease-purchase agreements with the state have accounted for one-third, or $662 million, of the $1.97 billion increase in debt over the past two years.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, declined to $408 million in 2006 from $450 million in 2005, primarily as a result of a $65 million drop in interim loans from the state for capital projects refinanced by the state's issuance of lease revenue bonds. However, at the end of 2006, the current portion of long-term debt still includes over $66 million of these interim loans from the state for capital projects that will be refinanced as lease revenue bonds are issued by the state in the future.

Outstanding debt increased by $931 million in 2006 and $1.03 billion in 2005. A summary of the activity follows:

(in millions of dollars)

	2006	2005
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$ 911	$ 283
Limited Project Revenue Bonds	617	372
Capital leases	240	702
Student Housing LLC Revenue Bonds	99	110
Other borrowings	243	287
Bond premium	53	14
Additions to outstanding debt	**2,163**	**1,768**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(939)	(510)
Scheduled principal payments	(244)	(204)
Payments on other borrowings	(23)	(21)
Other, including deferred financing costs, net	(26)	(1)
Reductions to outstanding debt	**(1,232)**	**(736)**
Net increase in outstanding debt	**$ 931**	**$1,032**

During 2006, additions to outstanding debt totaled $2.16 billion, including bond premiums of $53 million.

General Revenue Bonds totaling $558 million were issued in July 2005 to refinance certain facilities and projects of the University. Proceeds, together with certain University funds, were used to refund $439 million of outstanding Multiple Purpose Projects Revenue Bonds, $43 million of Research Facilities Revenue Bonds and $81 million of certificates of participation. In October 2005, General Revenue Bonds totaling $353 million were sold to finance certain facilities of the University, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Limited Project Revenue Bonds totaling $617 million were issued in October 2005 to finance certain auxiliary enterprises of the University, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University entered into a lease-purchase agreement with the state in December 2005, recorded as a capital lease, totaling $156 million to finance the construction of various University projects. The state provides financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University. Subsequent to the end of the year, the University entered into a lease-purchase agreement with the state for $80 million. In addition, other new capital lease obligations during 2006 for equipment and a capitalized ground lease totaled $84 million.

In the prior year, the University entered into a ground lease with a legally separate, non-profit corporation that has developed and owns a student housing project on a campus through the use of a single-project limited liability corporation (LLC). The LLC, through its conduit issuer, issued Student Housing Revenue Bonds in December 2004 totaling $110 million to finance the construction of a student housing facility. Under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

In April 2006, the LLC, through its conduit issuer, issued Student Housing Refunding Revenue Bonds totaling $99 million to partially refinance the construction of a student housing facility. Proceeds were used to refund $95 million of the outstanding Student Housing Revenue Bonds that were issued in December 2004. Neither the initial bonds, nor the refunding bonds, are collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of the University. Further, the University is not responsible for any payments related to the ownership, operation or financing of the student housing.

Other newly originated borrowings in 2006 totaled $243 million, primarily loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2006 were $1.23 billion, primarily consisting of $939 million for one-time principal payments for the refinancing or refunding of previously outstanding University revenue bonds ($482 million), University certificates of participation ($81 million), a portion of the LLC's Student Housing Revenue Bonds ($95 million), payments on interim loans from the state as lease revenue bonds were sold ($124 million) and refinancing of previously outstanding bank loans ($157 million); $244 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $23 million for scheduled payments on other borrowings.

The University's bond ratings are currently affirmed at the Aa2 level by Moody's Investors Service with a positive outlook and AA by Standard & Poor's with a stable outlook.

During 2005, additions to outstanding debt totaled $1.77 billion, including bond premiums of $14 million.

Limited Project Revenue Bonds totaling $372 million were issued in September 2004 to finance auxiliary enterprises. The proceeds from these bonds were used to finance new facilities, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds. In January 2005, General Revenue Bonds totaling $283 million were issued to finance new facilities, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

In December 2004, April 2005 and June 2005, the University entered into lease-purchase agreements, recorded as capital leases, totaling $627 million with the state to finance the construction of various University projects. In addition, other new capital lease obligations, generally for equipment, totaled $75 million.

Other newly originated borrowings in 2005 totaled $287 million, primarily loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2005 were $736 million, primarily consisting of $510 million for one-time principal payments for the refinancing or refunding of previously outstanding capital leases ($10 million), payments on interim loans from the state as lease revenue bonds were sold ($173 million) and refinancing of previously outstanding bank loans ($327 million); $204 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $21 million for scheduled payments on other borrowings.

The state of California, primarily through state financing appropriations, provided $165 million and $142 million in 2006 and 2005, respectively, of the University's debt service requirements, mainly under the terms of lease-purchase agreements.

Securities lending collateral *(in millions of dollars)*

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. Securities lending collateral grew by $878 million in 2006 and dropped by $1.04 billion in 2005. The amount of the securities lending collateral liability fluctuates directly with the investment of cash collateral as previously discussed.

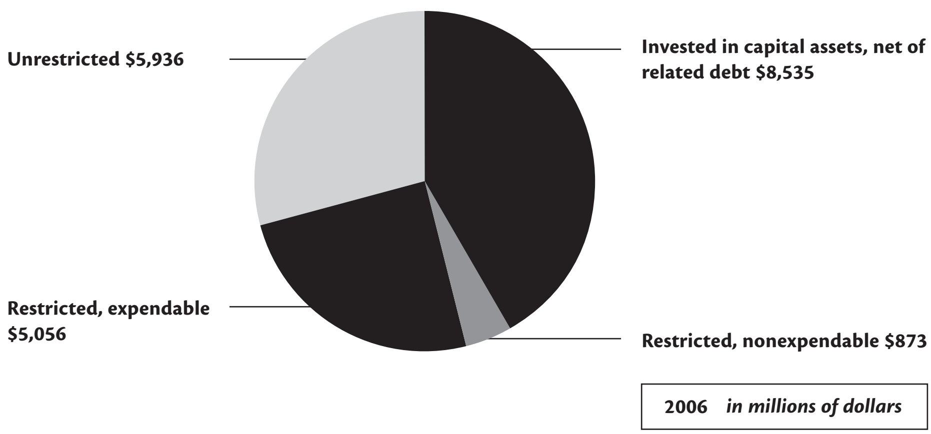
Other liabilities *(in millions of dollars)*

Other liabilities consist of accounts payable, accrued salaries and benefits, deferred revenue, funds held for others, the DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements.

Other liabilities dropped by $210 million in 2006, primarily as a result of decreases in accrued salaries and benefits of $250 million as the monthly payroll was paid prior to the end of the year in 2006; DOE laboratories' liabilities of $272 million with the transition of the LANL contract to LANS; and self-insurance liabilities of $38 million, partially offset by increases in accounts payable of $224 million, particularly settlement liabilities for the purchase of investments of $216 million; deferred revenue of $68 million; funds held for others of $17 million; and compensated absences of $19 million.

In 2005, other liabilities increased by $100 million primarily as a result of increases in vendor payables, particularly construction payables, of $35 million; accrued salaries of $17 million; deferred revenue of $10 million; funds held for others of $20 million; third-party payor liabilities at medical centers of $30 million; and vacation leave of $30 million, partially offset by a $56 million reduction in benefit liabilities.

The University's Net Assets



Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets are $20.40 billion in 2006, compared to $18.98 billion in 2005 and $17.79 billion in 2004. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

Invested in capital assets, net of related debt *(in millions of dollars)*

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, are $8.54 billion in 2006, compared to $8.11 billion in 2005 and $7.56 billion in 2004. The increase represents the University's continuing investment in its physical facilities in excess of the related financing and depreciation expense and accounts for a significant portion of the University's overall increase in its net assets for both 2006 and 2005.

Restricted, nonexpendable *(in millions of dollars)*

Restricted, nonexpendable net assets include the corpus of the University's permanent endowments and the estimated fair value of planned giving arrangements. Substantially all of the increase in both years is from new permanent endowment gifts received.

Restricted, expendable *(in millions of dollars)*

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third party receipts. In 2006, net unrealized appreciation in the fair value of investments contributed $178 million to the value of endowments and gifts and restricted net assets available for capital assets grew by $460 million. In 2005, restricted, expendable net assets generally increased as a result of the net unrealized appreciation in the fair value of investments.

Unrestricted *(in millions of dollars)*

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are allocated for academic and research initiatives or programs, for capital purposes or for other purposes. Unrestricted net assets include endowments, gifts and funds functioning as endowments of $1.20 billion and $1.10 billion in 2006 and 2005, respectively.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements, although it is expected that there will be a significant increase in the University's operating expenses and liabilities, as well as a significant decrease in unrestricted net assets.

The University's Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

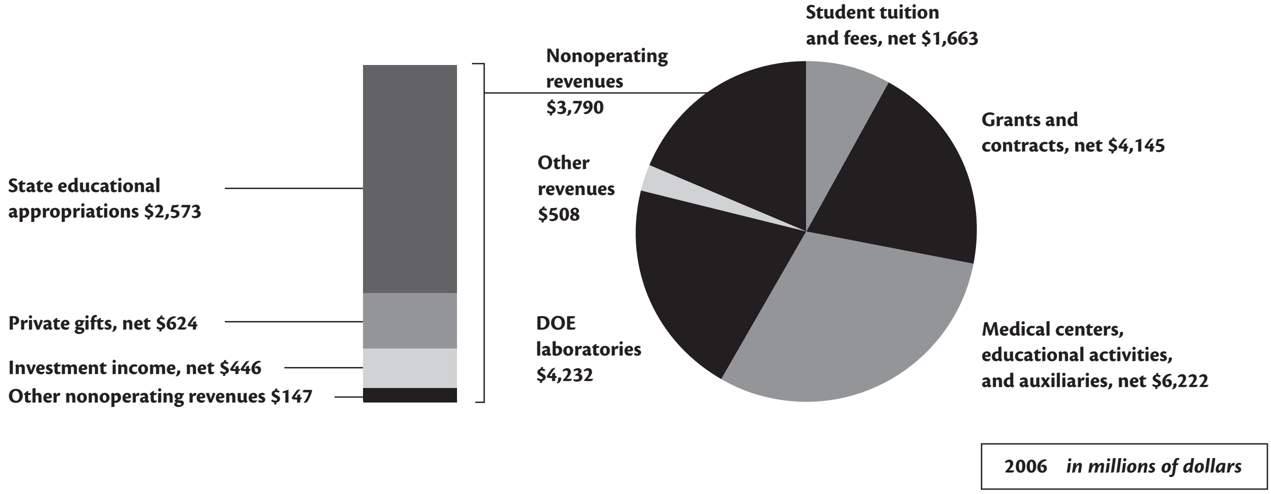
A summarized comparison of the operating results for 2006, 2005 and 2004, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2006			2005			2004		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$ 1,663		$ 1,663	$ 1,558		$ 1,558	$ 1,378		$ 1,378
State educational appropriations		$ 2,573	2,573		$ 2,463	2,463		$ 2,640	2,640
Grants and contracts, net	4,145		4,145	3,977		3,977	3,826		3,826
Medical centers, educational activities, and auxiliary enterprises, net	6,222		6,222	5,744		5,744	5,275		5,275
Department of Energy laboratories	4,232		4,232	4,146		4,146	4,116		4,116
Private gifts, net		624	624		537	537		545	545
Investment income, net		446	446		348	348		316	316
Other revenues	508	147	655	376	121	497	347	116	463
Revenues supporting core activities	**16,770**	**3,790**	**20,560**	**15,801**	**3,469**	**19,270**	**14,942**	**3,617**	**18,559**
EXPENSES									
Salaries and benefits	9,488		9,488	8,924		8,924	8,628		8,628
Scholarships and fellowships	358		358	363		363	334		334
Utilities	350		350	311		311	279		279
Supplies and materials	1,827		1,827	1,707		1,707	1,529		1,529
Depreciation and amortization	997		997	955		955	900		900
Department of Energy laboratories	4,198		4,198	4,112		4,112	4,082		4,082
Interest expense		347	347		296	296		268	268
Other expenses	2,299	14	2,313	2,108	6	2,114	1,994	64	2,058
Expenses associated with core activities	**19,517**	**361**	**19,878**	**18,480**	**302**	**18,782**	**17,746**	**332**	**18,078**
Income (loss) from core activities	**$ (2,747)**	**$ 3,429**	**682**	**$ (2,679)**	**$ 3,167**	**488**	**$ (2,804)**	**$ 3,285**	**481**
OTHER NONOPERATING ACTIVITIES									
Net appreciation in fair value of investments			315			278			291
Gain (loss) on disposal of capital assets, net			(6)			(37)			13
Income before other changes in net assets			**991**			**729**			**785**
OTHER CHANGES IN NET ASSETS									
State capital appropriations			220			189			217
Capital gifts and grants, net			167			218			320
Permanent endowments			44			48			24
Increase in net assets			**1,422**			**1,184**			**1,346**
NET ASSETS									
Beginning of year			18,978			17,794			16,448
End of year			**$ 20,400**			**$18,978**			**$17,794**

Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2006 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were $20.56 billion, $19.27 billion and $18.56 billion in 2006, 2005 and 2004, respectively. These diversified sources of revenue increased in 2006 by $1.29 billion and in 2005 by $711 million. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Student tuition and fees, net *(in millions of dollars)*

Student tuition and fees revenue, net of scholarship allowances, increased by $105 million and $180 million in 2006 and 2005, respectively. Scholarship allowances were $436 million in 2006, $383 million in 2005 and $338 million in 2004. The new fee revenue generally replaces state educational appropriations. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on needy students.

In 2006, enrollment grew by 0.6 percent. Resident undergraduate fees increased by 8 percent, graduate student fees by 10 percent and professional school student fees increased by varying amounts. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition that increased by 5 percent.

In 2005, enrollment was maintained at essentially the same level as in 2004. Fees for resident undergraduate and graduate students rose by 14 percent and 20 percent, respectively. Professional school fees rose by varying amounts and nonresident student tuition was increased by 20 percent.

In 2004, enrollment grew by 4.0 percent and fees for all resident undergraduate and graduate students increased by 30 percent. Professional school fees were also raised. Nonresident student tuition was increased by 10 percent.

The compounded increase in student fees since 2003 was over 60 percent for resident undergraduate students and 67 percent for resident graduate students. In addition, the compounded increase in student tuition for nonresidents was 39 percent.

State educational appropriations *(in millions of dollars)*

Educational appropriations from the state of California increased in 2006 by $110 million. In 2005, educational appropriations declined by $177 million. This year marks the end of several years of budget reductions from the state that began in 2003 and included a round of mid-year reductions in both 2003 and 2004. A wide variety of areas and programs have been affected including administration, maintenance, libraries, equipment, academic preparation, K-12 teacher development, public service and student services. In order to maintain the quality of instruction, student fees were increased to offset the reduction in educational appropriations.

Grants and contracts, net *(in millions of dollars)*

Highlighting the continued competitive and effective nature of the University's research enterprise, revenue from federal, state, private and local government grants and contracts, including an overall facilities and administration cost recovery of $712 million, $679 million and $639 million in 2006, 2005 and 2004, respectively, increased in both 2006 and 2005 as follows:

(in millions of dollars)

	2006	2005	2004
Federal	$ 2,814	$ 2,740	$ 2,623
State	424	411	397
Private	744	681	653
Local	163	145	153
Grants and contracts net revenue	**$4,145**	**$3,977**	**$3,826**

In 2006, federal grants and contracts revenue, including the federal facilities and administration cost recovery of $576 million and direct expenditures of $2.24 billion, grew by $74 million, or 2.7 percent. This revenue represents support from a variety of federal agencies as indicated below:

(in millions of dollars)

	2006	2005	2004
Department of Health and Human Services	$ 1,644	$ 1,560	$ 1,457
National Science Foundation	423	414	401
Department of Education	215	210	219
Department of Defense	163	172	176
National Aeronautics and Space Administration	101	119	91
Department of Energy (excluding national laboratories)	76	78	76
Other federal agencies	192	187	203
Federal grants and contracts net revenue	**$2,814**	**$2,740**	**$2,623**

State grants and contracts revenue was up by $13 million, or 3.2 percent, primarily in special appropriations for AIDS, breast cancer and tobacco research. Although levels of private grants and contracts revenue at the campuses can be volatile from year-to-year, overall it rose by $63 million (9.3 percent) particularly due to a growing number of awards. Local government grants and contracts revenue grew by $18 million (12.4 percent).

In 2005, overall revenue from federal, state, private and local government grants and contracts increased by $151 million, or 3.9 percent. Federal grants and contracts revenue grew by $117 million, or 4.5 percent; state grants and contracts revenue increased by $14 million, or 3.5 percent; private grants and contracts revenue grew by $28 million, or 4.3 percent, and local government grants and contracts revenue declined by $8 million, or 5.2 percent.

Medical centers, educational activities and auxiliary enterprises, net *(in millions of dollars)*

Revenue from medical centers, educational activities and auxiliary enterprises increased by $478 million, or 8.3 percent, from 2005. In 2005, these revenues increased $469 million, or 8.9 percent, from 2004. Revenues for each activity are as follows:

(in millions of dollars)

	2006	2005	2004
Medical centers, net	$ 4,206	$ 3,834	$ 3,501
Educational activities, net	1,123	1,063	996
Auxiliary enterprises, net	893	847	778
Medical centers, educational activities and auxiliary enterprises net revenues	**$6,222**	**$5,744**	**$5,275**

Medical center revenue, net of allowances for doubtful accounts, increased by $372 million and $333 million in 2006 and 2005, respectively. The revenue growth in both years is primarily due to renegotiated contracts, rate adjustments, improved reimbursement rates and a modest increase in patient activity (a 1.0 and 2.2 percent increase in patient days for 2006 and 2005, respectively, and outpatient visits declined by 0.3 percent and increased by 0.7 percent for 2006 and 2005, respectively).

Revenue from educational activities, primarily physicians' professional fees, net of allowances for doubtful accounts, grew by $60 million in 2006, or 5.6 percent, and by $67 million, or 6.7 percent, in 2005 and was generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by $46 million in 2006, or 5.4 percent, and by $69 million in 2005, or 8.9 percent, generally as a result of additional room capacity in new residence halls and fee increases to support new and remodeled facilities in both years. Scholarship allowances, substantially all for housing expenses, were $109 million in 2006, $85 million in 2005 and $82 million in 2004.

DOE laboratories *(in millions of dollars)*

The national laboratories operate on federally financed budgets. Revenue for each laboratory in 2006, 2005 and 2004 is as follows:

(in millions of dollars)

	2006	2005	2004
Los Alamos National Laboratory	$ 2,055	$ 2,007	$ 2,057
Lawrence Livermore National Laboratory	1,649	1,640	1,572
Lawrence Berkeley National Laboratory	528	499	487
DOE laboratories revenue	**$4,232**	**$4,146**	**$4,116**

Los Alamos laboratory revenue is reported in the University's financial statements for the eleven months ended May 31, 2006 when the contract to manage and operate the laboratory was directly between the DOE and the University. The contract transitioned to the LANS effective June 1, 2006. As a result, revenue comparisons for the LANL are affected by the partial year in 2006 and the curtailment of operations for several months during a review of security procedures in 2005.

At the Livermore laboratory, additional revenue in 2006 is primarily related to an increase in capital spending requirements for the National Ignition Facility and in 2005 to the DOE's emphasis on certain Defense and Nuclear Technology initiatives. However, in 2004 there was a reduction in capital spending that offset nearly all of the revenue increase in the science initiatives.

The Berkeley laboratory's growth over the past two years has been primarily in the areas of Materials Sciences and Computing Sciences.

Compensation to the University under the contracts is based, in part, on performance and totaled $34 million in 2006 and 2005 and $33 million in 2004. A substantial portion of the compensation is returned to the laboratories for research activities.

Private gifts, net *(in millions of dollars)*

Gifts may be made directly to the University or through one of the University's campus foundations. Private gifts, substantially all restricted as to use, increased by $87 million in 2006 and were substantially above the $545 million received in 2004. Over two-thirds of the increase in 2006 came to the University from the campus foundations.

The University continues to be aggressive in developing private revenue sources and gifts received from the campus foundations have generally increased over the past several years. In addition to private gifts for operating purposes, gifts are also received for capital purposes—recorded as capital gifts and grants—and for permanent endowments. The combined gifts for operating, capital and permanent endowment purposes totaled $835 million in 2006, $803 million in 2005 and $889 million in 2004.

Investment income, net *(in millions of dollars)*

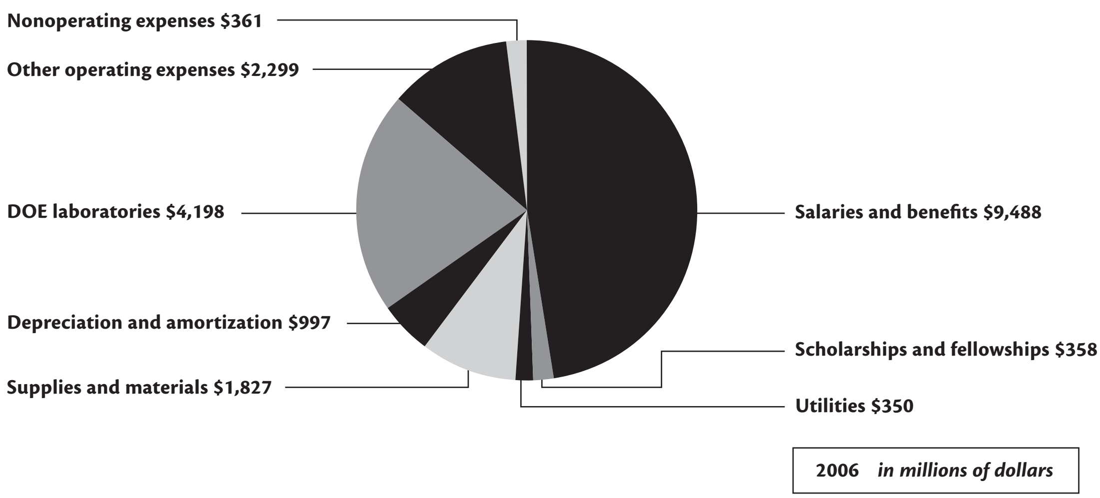
Investment income, principally consisting of $308 million primarily from the STIP and $133 million from endowments invested in the GEP, increased in 2006 by $98 million. Investment income from the STIP grew by $95 million and $23 million in 2006 and 2005, respectively, as short-term interest rates rose. The 2006 investment returns were 4.2 percent for the University's STIP (3.6 percent for 2005). Endowment income also grew by $3 million in 2006 and by $10 million in 2005.

Other revenues *(in millions of dollars)*

Other revenues are from a variety of sources, including state financing appropriations. Collectively, they increased by $158 million in 2006 and by $34 million in 2005. State financing appropriations grew by $26 million and $5 million in 2006 and 2005, respectively. Similarly, patent income rose by $89 million and $11 million in 2006 and 2005, respectively.

Expenses Associated with Core Activties

Categories of both operating and nonoperating expenses related to the University's core activities in 2006 are as follows:



Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $19.88 billion, $18.78 billion and $18.08 billion in 2006, 2005 and 2004, respectively. Expenses increased in 2006 by $1.10 million and in 2005 by $704 million. Nearly half the University's expenses are related to salaries and benefits and another 21 percent, or $4.20 billion, involve spending at the national laboratories. Salaries and benefits attributable to the employees working in the national laboratories are included as laboratory expenses.

Salaries and benefits *(in millions of dollars)*

There are nearly 124,000 full time equivalent employees in the University, excluding employees that are associated with the national laboratories operated and managed directly by the University. Salaries and benefits for 2006, 2005 and 2004 are as follows:

(in millions of dollars)

	2006	2005	2004
Salaries and wages	$ 7,880	$ 7,441	$ 7,181
Benefits	1,608	1,483	1,447
Salaries and benefits	**$9,488**	**$8,924**	**$8,628**

During 2006, salaries and benefits grew by $564 million from 2005, or 6.3 percent, including $148 million at the University's five medical centers. Salaries and wages increased by $439 million, or 5.9 percent, generally related to new academic and administrative employees necessary to directly support the increase in academic and research programs and higher wages and changes to staffing ratios associated with patient care activities. Benefit costs increased by $125 million, or 8.4 percent. Increases in health insurance costs of $53 million, the employer portion of payroll taxes of $48 million and fee remissions for graduate student teaching assistants in tandem with the additional student tuition and fees this year of $10 million were partially offset by declining workers' compensation expenses of $14 million attributable to management safety initiatives and changes in the regulatory environment.

In 2005, salaries and benefits grew by $296 million, or 3.4 percent. Salaries and wages increased by $260 million, or 3.6 percent, generally for the same reasons as indicated for 2006. Benefit costs increased by $36 million, or 2.5 percent. Increases in health insurance costs of $83 million, the employer portion of payroll taxes of $16 million and fee remissions for graduate student teaching assistants of $22 million were partially offset by declining workers' compensation expenses of $85 million.

Scholarships and fellowships *(in millions of dollars)*

Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were lower by $5 million in 2006 than in 2005, a decrease of 1.4 percent, and were higher by $29 million in 2005 than in 2004, an increase of 8.7 percent. In addition, scholarship allowances, representing financial aid and fee waivers by the University, are also forms of scholarship and fellowship costs that increased in 2006 by $78 million, or 16.4 percent, to $553 million and increased in 2005 by 11.2 percent to $475 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms grew to $911 million in 2006 from $838 million in 2005 and $761 million in 2004, an increase of $150 million over the past two years, or 19.7 percent.

Utilities *(in millions of dollars)*

Utility costs rose by $39 million in 2006 and by $32 million in 2005. Almost three-quarters of the University's utility costs are for electricity and natural gas. In 2006, electricity costs declined by $1 million aided by the settlement of outstanding litigation related to an electricity supply agreement and natural gas costs grew by $30 million, or nearly 40 percent. Electricity costs in 2005 increased by $12 million, or 8.7 percent, and natural gas costs grew by $7 million, or 10.4 percent.

Supplies and materials *(in millions of dollars)*

During 2006, supplies and materials costs increased by $120 million, or 7.0 percent, and in 2005, by $178 million, or 11.6 percent. During the past two years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. In addition, the University's capitalization threshold was increased in 2006 to the federal limit for research grants and contracts of $5,000 from $3,000 in the prior year resulting in $48 million of incremental expense. The University increased the capitalization threshold in 2005 from $1,500 to $3,000 resulting in $41 million of incremental expense in that year.

Depreciation and amortization *(in millions of dollars)*

Higher capital spending over the past several years necessary to upgrade facilities and support both recent and anticipated enrollment growth resulted in depreciation and amortization expense increasing to $997 million in 2006 from $955 million in 2005 and $900 million in 2004.

DOE laboratories *(in millions of dollars)*

DOE laboratories' expenses rose by $86 million in 2006 and by $30 million in 2005. Salaries and benefits are the predominant expenses at the laboratories, totaling over $1.78 billion in 2006, and spending patterns for capital assets are generally responsible for most of the extreme year-to-year variations. In 2006, although managed and operated directly by the University for only eleven months of the year, expenses at Los Alamos increased by $49 million when compared to 2005 when operations were curtailed for several months during a review of security procedures. Expenses at the Berkeley and Livermore laboratories grew by $27 million and $10 million, respectively. In 2005, combined salaries and benefits increased by $43 million. However, lower spending for non-personnel costs at Los Alamos, attributable to the curtailed operations, offset other cost increases at Livermore and Berkeley.

Interest expense *(in millions of dollars)*

Interest expense, reported as a nonoperating expense, increased by $51 million in 2006 and by $28 million in 2005. The University incurred additional interest expense for commercial paper and for new bonds issued during the past three years, although the weighted average interest rate of the overall portfolio has decreased from two years ago due to refinancing previously outstanding bonds at lower rates.

Other expenses *(in millions of dollars)*

Other expenses, including other nonoperating expenses, increased by $199 million in 2006 and $56 million in 2005. There were increases generally across a variety of expense categories, including travel, insurance and repairs and maintenance. The transition of the Los Alamos laboratory to being managed and operated directly by LANS rather than the University resulted in $21 million of expenses for reimbursements to the DOE associated with the transition of employees and their health benefits to LANS. In addition, nonoperating expenses include $16 million for infrastructure to be dedicated in conjunction with the purchase of land to be used to expand health care facilities. In 2005, there were nominal increases in a variety of expense categories.

In accordance with the GASB's reporting standards, operating losses were $2.74 billion in 2006, $2.68 billion in 2005 and $2.80 billion in 2004. However, these operating losses were more than offset by $3.43 billion, $3.17 billion and $3.29 billion of net revenue and expenses in 2006, 2005 and 2004, respectively, that are required by the GASB to be classified as nonoperating, but clearly support operating activities of the University. Therefore, revenue to support core activities exceeded the associated expenses by $682 million in 2006, $488 million in 2005 and $481 million in 2004. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service or required for capital purposes.

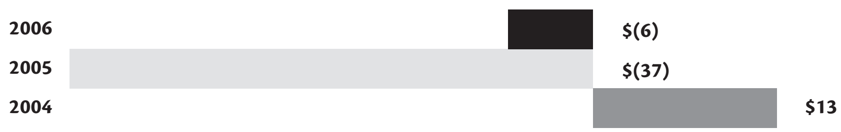
Other Nonoperating Activities

The University's other nonoperating activities, generally noncash transactions and, therefore, not available to support operating expenses, are the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Net appreciation in fair value of investments *(in millions of dollars)*

In 2006, the University recognized net appreciation in the fair value of investments of $315 million compared to $278 million of net appreciation during 2005 and $291 million in 2004. As short-term interest rates continued to rise in 2006, the fair value of certain securities in the fixed-income portfolios generally declined resulting in net unrealized depreciation. However, as equity markets delivered reasonable gains over the past two years, the equity portfolios appreciated in value.

Gain (loss) on disposal of capital assets, net of proceeds *(in millions of dollars)*



Disposals and write-offs of capital assets resulted in a loss of $6 million in 2006 compared to a loss of $37 million in 2005. Typically, routine disposals can result in a slight loss.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

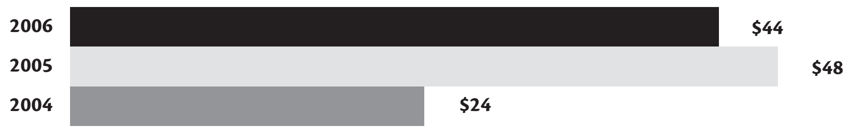
State capital appropriations *(in millions of dollars)*

The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California increased by $31 million in 2006 and decreased by $28 million in 2005. The 2005 and 2006 capital appropriations are from the 2004 bond measure approved by the California voters and the 2004 capital appropriations are from the 2002 bond measure.

Capital gifts and grants, net *(in millions of dollars)*

Capital gifts and grants decreased by $51 million in 2006 and $102 million in 2005. Comparisons between 2006, 2005 and 2004 are affected by a gradual decline in the receipt of Federal Emergency Management Agency (FEMA) grants, primarily for the replacement hospitals at UCLA as the projects approach completion, along with the timing of certain other significant gifts during the three years. Grants from FEMA declined by $19 million and $61 million in 2006 and 2005, respectively. In addition, the University received gifts of software licenses of $24 million in 2005 and $12 million of intangible assets in 2004.

Permanent endowments *(in millions of dollars)*



Gifts of permanent endowments to the University in 2006 were similar to 2005 after they doubled from 2004 levels as the University continues to place significant emphasis on private giving.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. The University's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts on a daily basis.

A summary comparison of cash flows for 2006, 2005 and 2004 is as follows:

(in millions of dollars)

	2006	2005	2004
Cash received from operations	$ 12,454	$ 11,567	$ 10,714
Cash payments for operations	(14,655)	(13,389)	(12,662)
Net cash used by operating activities	**(2,201)**	**(1,822)**	**(1,948)**
Net cash provided by noncapital financing activities	3,221	3,049	3,201
Net cash used by capital and related financing activities	(772)	(1,291)	(1,353)
Net cash provided (used) by investing activities	(210)	157	74
Net increase (decrease) in cash	**38**	**93**	**(26)**
Cash, beginning of year	164	71	97
Cash, end of year	**$ 202**	**$ 164**	**$ 71**

The University's cash in demand deposit accounts increased by $38 million in 2006 and by $93 million in 2005 compared to a decline of $26 million in 2004.

Over $2.20 billion of cash was used for operating activities in 2006, offset by $3.22 billion of cash provided by noncapital financing activities, resulting in $1.02 billion available for capital financing or investing activities. Similarly, in 2005, $1.82 billion of cash was used for operating activities, offset by $3.05 billion of cash provided by noncapital financing activities, resulting in $1.23 billion available for these uses. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash of $772 million and $1.29 billion in 2006 and 2005, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal (FEMA) capital appropriations and gifts for capital purposes. During 2006, purchases of capital assets were less than 2005 by $412 million and proceeds from the issuance of debt, net of the refinancing of previously outstanding debt, were higher than 2005 by $225 million.

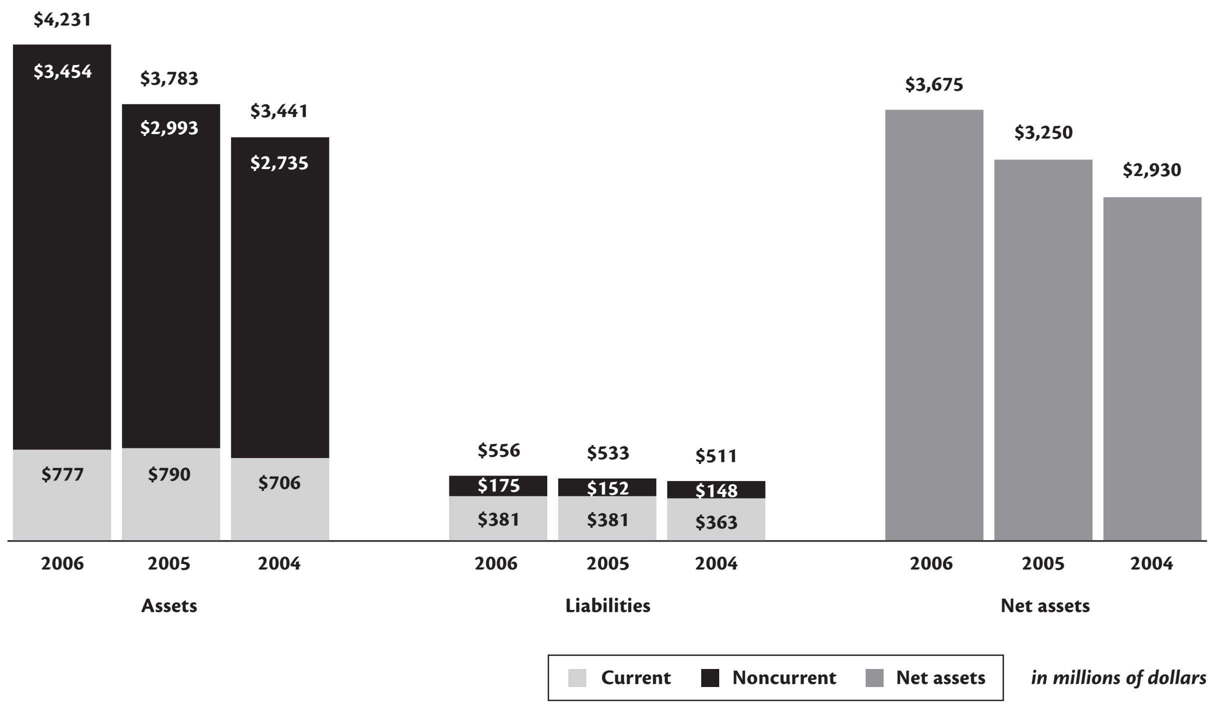
Cash used by investing activities totaled $210 million in 2006 compared to cash provided by investing activities of $157 million in 2005 and $74 million in 2004. The differences are a result of the routine timing of investment transactions and greater investment income.

THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

The Regents have approved the establishment of separate foundations at each individual campus to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of these ten foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Campus Foundations' Financial Position

The campus foundations' statement of net assets presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities and net assets. The difference between assets and liabilities are net assets, representing a measure of the current financial condition of the campus foundations.



The major components of the combined assets, liabilities and net assets of the campus foundations at 2006, 2005 and 2004 are as follows:

(in millions of dollars)

	2006	2005	2004
ASSETS			
Investments	$ 3,364	$ 2,950	$ 2,597
Investment of cash collateral	280	288	266
Pledges receivable, net	430	427	453
Other assets	157	118	125
Total assets	**4,231**	**3,783**	**3,441**
LIABILITIES			
Securities lending collateral	280	288	266
Obligations under life income agreements	163	162	154
Other liabilities	113	83	91
Total liabilities	**556**	**533**	**511**
NET ASSETS			
Restricted:			
Nonexpendable	1,527	1,360	1,226
Expendable	2,132	1,874	1,696
Unrestricted	16	16	8
Total net assets	**$3,675**	**$3,250**	**$2,930**

Assets. Investments in 2006 grew by $414 million. The significant changes were $159 million of new permanent endowments, $234 million of net appreciation in the fair value of investments and $68 million of investment income, partially offset by $45 million of net cash distributions as cash receipts from gifts were less than the foundations' grants to the University.

Investments in 2005 grew by $353 million, generally resulting from $122 million of new permanent endowments, $151 million of net appreciation in the fair value of investments and $61 million of investment income, partially offset by $32 million of net cash distributions.

The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investment Committee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $938 million and $861 million of the campus foundations' investments at the end of 2006 and 2005, respectively.

The campus foundations' statement of net assets includes an allocation of the University's securities lending assets and liabilities at the end of each year and income and rebates for the year, in accordance with their respective investments with the University. One campus foundation participates directly in its own securities lending program. The investment of cash collateral and related securities lending liability allocated by the University to the campus foundations totaled $230 million and $231 million at the end of 2006 and 2005, respectively. The campus foundation with direct participation loaned securities for cash collateral of $50 million and $57 million at the end of 2006 and 2005, respectively.

Certain campuses and campus foundations have comprehensive fund-raising campaigns underway, raising both gifts and pledges. Pledges receivable, representing gifts to be received in the future, were $430 million at the end of 2006, up $3 million from last year. Pledges receivable declined in 2005 by $26 million to $427 million, primarily due to a significant pledge payment in 2005 at the Davis campus foundation.

Liabilities. Total campus foundations' liabilities were $556 million in 2006 compared to $533 million in 2005. The Berkeley campus foundation deferred revenue from a conditional gift in 2006. Substantially all of the increase in 2005 resulted from the securities lending program discussed above.

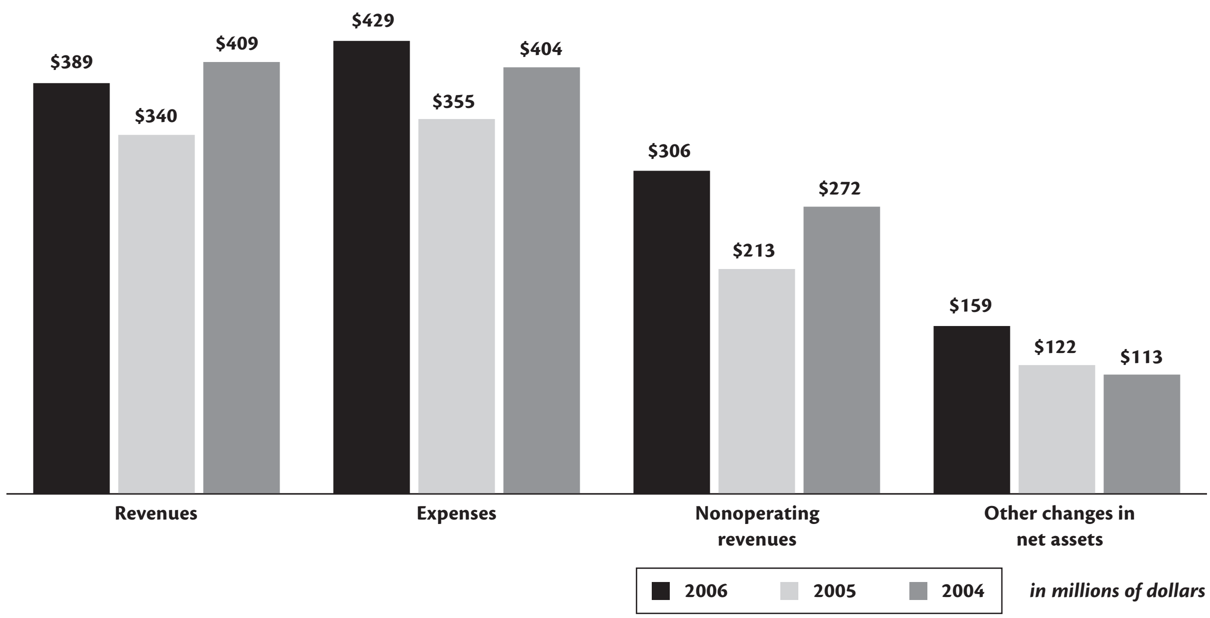
Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

Restricted, nonexpendable net assets include the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. The increase is primarily attributable to new permanent endowment gifts received, partially offset by an increase in the estimated liability to beneficiaries of the planned giving arrangements.

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the increase in value in 2006 and 2005.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes.

The Campus Foundations' Results of Operations



The campus foundations' combined statement of revenues, expenses and changes in net assets is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2006, 2005 and 2004 is as follows:

(in millions of dollars)

	2006	2005	2004
OPERATING REVENUES			
Private gifts	$ 388	$ 332	$ 407
Other revenues	1	8	2
Total operating revenues	**389**	**340**	**409**
OPERATING EXPENSES			
Grants to campuses	416	344	390
Other expenses	13	11	14
Total operating expenses	**429**	**355**	**404**
Operating income (loss)	**(40)**	**(15)**	**5**
NONOPERATING REVENUES (EXPENSES)			
Investment income	69	62	55
Net appreciation in fair value of investments	234	151	221
Other nonoperating revenues (expenses)	3		(4)
Income before other changes in net assets	**266**	**198**	**277**
OTHER CHANGES IN NET ASSETS			
Permanent endowments	159	122	113
Increase in net assets	**425**	**320**	**390**
NET ASSETS			
Beginning of year, as reported	3,250	2,930	2,507
Cumulative effect of a change in accounting principle			33
Beginning of year, as restated			2,540
End of year	**$3,675**	**$3,250**	**$2,930**

Operating income (loss). Operating revenues generally consist of current-use gifts, including pledges and income from other fund-raising activities, although they do not include additions to permanent endowments and endowment income. In 2006, operating revenues increased by $49 million while they declined in 2005 by $69 million. Year-to-year comparisons can be affected by single, significant gifts in any one year, including such gifts in 2004 at both the Berkeley and San Francisco campus foundations.

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue, however the campus' programmatic needs are also taken into consideration, subject to abiding by the designated purposes of gifts to the endowment and the amounts available for grants in any particular year.

Private gift revenue includes pledges, a non-cash operating revenue. Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

Nonoperating revenues (expenses). Nonoperating revenues or expenses include net investment income, net appreciation or depreciation in the fair value of investments and adjustments to gift annuity and trust liabilities. Investment income of $69 million was up from $62 million in 2005 and $55 million in 2004. Due to the performance of the financial markets in 2006 and 2005, the campus foundations reported $234 million and $151 million, respectively, of net appreciation in the fair value of investments.

Other changes in net assets. Gifts of permanent endowments of $159 million in 2006 grew by $37 million from 2005 levels. In 2005, gifts of permanent endowments grew by $9 million from 2004.

Cumulative effect of a change in accounting principle. Effective at the beginning of 2004, the Berkeley campus foundation began recording the fair value of its estimated remainder interest in externally held irrevocable trusts that will not become a permanent endowment upon distribution. Previously, the campus foundation had recorded its remainder interest only upon receipt of the assets as a result of the termination of the trust. Adoption of this policy is reflected as a change in accounting principle in the campus foundations' statement of revenues, expenses and changes in net assets. The effect of this change in 2004 was to increase net assets by $33 million. This amount represents the campus foundation's remainder interest in the fair value of these trusts discounted to a present value.

The Campus Foundations' Cash Flows

The campus foundations' combined statement of cash flows presents the significant sources and uses of cash and cash equivalents. A summary comparison of cash flows for 2006, 2005 and 2004 is as follows:

(in millions of dollars)

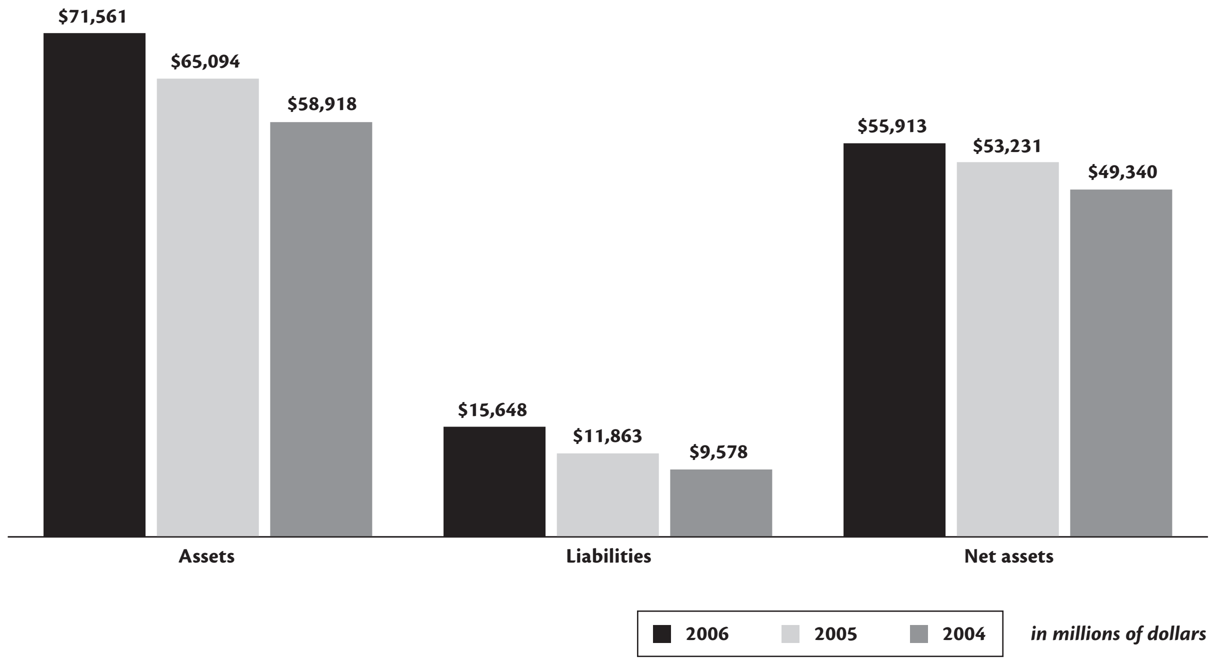
	2006	2005	2004
Cash received from private gifts	$ 385	$ 338	$ 343
Cash payments for grants	(430)	(370)	(408)
Other cash receipts (payments), net	(3)	4	(2)
Net cash used by operating activities	**(48)**	**(28)**	**(67)**
Net cash provided by noncapital financing activities	141	107	104
Net cash used by investing activities	(47)	(88)	(16)
Net increase (decrease) in cash	**46**	**(9)**	**21**
Cash and cash equivalents, beginning of year	80	89	68
Cash and cash equivalents, end of year	**$ 126**	**$ 80**	**$ 89**

Cash and cash equivalents were $126 million in 2006 compared to $80 million in 2005, an increase of $46 million. In 2005, cash dropped by $9 million. Cash used by operating activities was $48 million in 2006 compared to $28 million in 2005 due to greater grants made to campuses. As discussed above, cash payments for grants are an operating activity, but these payments also include investment income which is an investing activity. In addition, while the trend is for grants to campuses to coincide with contributions revenue, the timing may not always occur in the same year. Cash provided by noncapital financing activities primarily results from cash gifts to permanent endowments.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

The UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. The UCRS consists of the University of California Retirement Plan (the UCRP), a defined benefit plan for members; the University of California Retirement Savings Program that includes three defined contribution plans (the DCP, the 403(b) and the 457(b) plans) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP) for certain University employees that were members of PERS who elected early retirement.

The UCRS' Financial Position



The statement of plans' fiduciary net assets presents the financial position of the UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for pension benefits. These represent amounts available to provide pension benefits to members of the UCRP and participants in the defined contribution plans and the PERS-VERIP. At June 30, 2006, the UCRS plans' assets were over $71 billion, liabilities were nearly $16 billion and net assets held in trust for pension benefits approached $56 billion, an increase of $2.68 billion from 2005. Net assets increased in 2005 by $3.89 billion from 2004.

The major components of the assets, liabilities and net assets available for pension benefits for 2006, 2005 and 2004 are as follows:

(in millions of dollars)

	2006	2005	2004
ASSETS			
Investments	$ 53,866	$ 51,372	$ 47,003
Participants' interest in external mutual funds	3,019	2,359	2,083
Investment of cash collateral	13,993	10,894	9,298
Other assets	683	469	534
Total assets	**71,561**	**65,094**	**58,918**
LIABILITIES			
Securities lending collateral	13,994	10,891	9,299
Other liabilities	1,654	972	279
Total liabilities	**15,648**	**11,863**	**9,578**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	43,440	41,936	39,263
Participants' defined contribution plan benefits	12,473	11,295	10,077
Total net assets held in trust for pension benefits	**$55,913**	**$53,231**	**$49,340**

Assets. UCRS investments, including participants' interest in external mutual funds, totaled $56.89 billion at the end of 2006 compared to $53.73 billion at the end of 2005, an increase of $3.16 billion, including the net effect at the end of the year of security purchases and sales yet to be settled of $1.27 billion. The increase, net of the effect of future settlements of security purchases and sales, was generally a result of $2.14 billion net appreciation in the fair value of investments, $1.02 billion in contributions to the UCRS and $1.72 billion in net investment earnings, partially offset by benefit payments and participant withdrawals of $2.17 billion.

In 2005, UCRS investments, including participants' interest in external mutual funds, increased by $4.64 billion, including the net effect at the end of the year of security purchases or sales yet to be settled of $715 million. The increase, net of the effect of future settlements of security purchases and sales, was primarily a result of $3.18 billion net appreciation in the fair value of investments, $924 million in contributions to the UCRS and $1.51 billion in net investment earnings, partially offset by benefit payments of $1.69 billion.

During 2006, participants' interest in external mutual funds, representing defined contribution plan contributions to certain external mutual funds on a custodial plan basis, grew by $660 million to $3.02 billion primarily through a combination of $267 million of participant contributions, $302 million of investment earnings and appreciation in the fair value of investments and $257 million transferred from University managed investments, partially offset by $154 million of participant withdrawals. In 2005, participants' interest in external mutual funds grew by $276 million to $2.36 billion generally through $201 million of participant contributions, $160 million of investment earnings and appreciation in the fair value of investments and $25 million transferred from University managed investments, partially offset by $110 million of participant withdrawals.

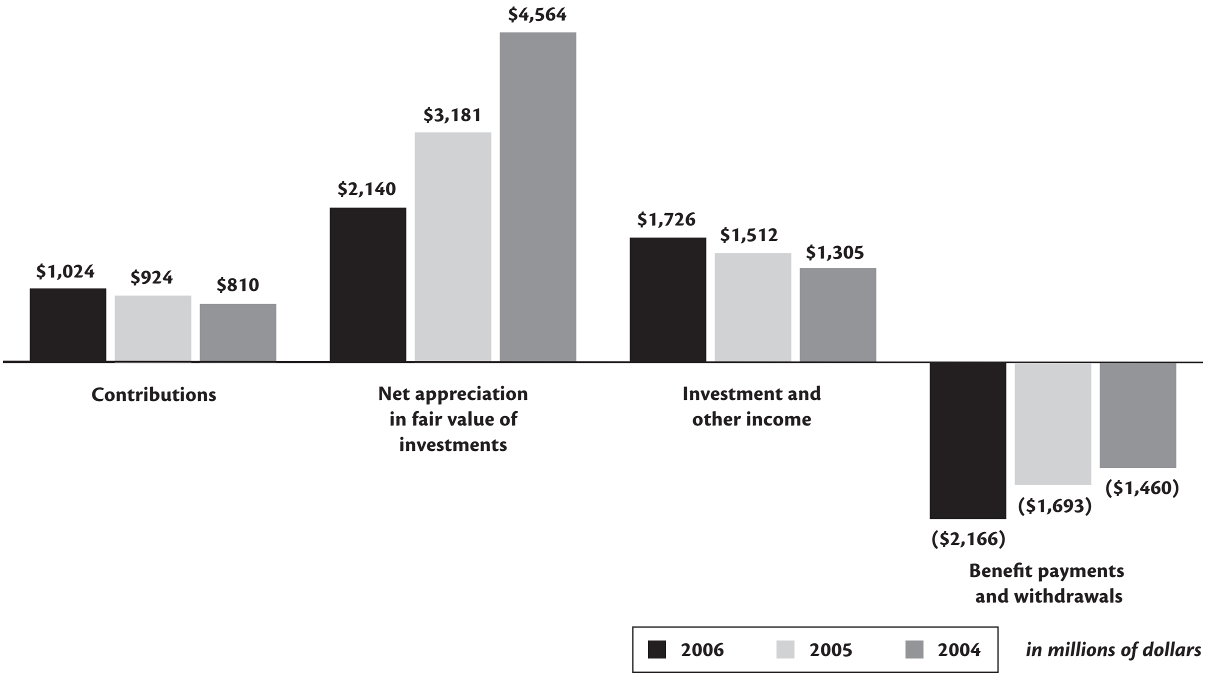
Along with the University, the UCRS participates in a securities lending program as a means to augment income. The investment of cash collateral and the associated liability for collateral held by the UCRS for securities on loan at the end of the year increased in 2006 and 2005 by 28.4 percent and 17.2 percent, respectively. The securities lending investment income, net of fees and rebates, increased to $24 million in 2006 from $17 million in 2005.

During 2006, two additional securities lending agents provided additional activity under the University's program. Interest rates were substantially above 2005 levels leading to a more than 100 percent increase in both gross income and rebates, and a slight increase in net income for the overall program.

Liabilities. Total UCRS liabilities were $15.65 billion in 2006 compared to $11.86 billion in 2005. Over $3.10 billion of the increase results from the securities lending program discussed above, with the remainder a result of liabilities for security purchases to be settled after year-end.

Net assets. A total of $43.44 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over $12.47 billion are associated with participants' tax deferred, defined contribution plan benefits. As of June 30, 2006, the date of the most recent actuarial report, the UCRP's funded ratio was 104.1 percent compared to 110.3 percent as of June 30, 2005. This indicates that for every dollar of benefits due to UCRP members under the University's defined benefit plan, assets of over $1.04 are available to cover benefit obligations.

The UCRS' Results of Operations



The statement of changes in plans' fiduciary net assets is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2006, 2005 and 2004 is as follows:

(in millions of dollars)

	2006	2005	2004
ADDITIONS (REDUCTIONS)			
Contributions	$ 1,024	$ 924	$ 810
Net appreciation in fair value of investments	2,140	3,181	4,564
Investment and other income, net	1,726	1,512	1,305
Total additions	**4,890**	**5,617**	**6,679**
DEDUCTIONS			
Benefit payments and participant withdrawals	2,166	1,693	1,460
Plan expenses	42	33	35
Total deductions	**2,208**	**1,726**	**1,495**
Increase in net assets held in trust for pension benefits	**$ 2,682**	**$ 3,891**	**$ 5,184**

Contributions. Contributions in 2006 increased by $100 million and in 2005 by $114 million. Substantially all were made into the defined contribution plans and included $21 million of University contributions this year. Due to the UCRP's funded position, neither the University nor the members has been required to make contributions since 1990. However, participants are required to make contributions to the DCP and may make voluntary and rollover contributions to the DCP, 403(b) plan, and 457(b) plan established in 2005.

Net appreciation in fair value of investments. The UCRS recognized net appreciation in the fair value of investments of $2.14 billion during 2006 compared to $3.18 billion during 2005.

The overall investment gain for the UCRS was 7.1 percent and 9.8 percent in 2006 and 2005, respectively.

Investment and other income. Investment and other income in 2006 of $1.73 billion increased by $214 million, or14.2 percent. Similarly, investment and other income in 2005 of $1.51 billion increased by $207 million, or 15.9 percent. Short-term interest rates rose in both years.

Benefit payments and withdrawals. Benefit payments and participant withdrawals were $473 million higher in 2006 than in 2005 and $233 million higher in 2005 than in 2004. Payments from the UCRP to retirees increased by $122 million and $120 million in 2006 and 2005, respectively, due to a growing number of retirees receiving payments and cost-of-living adjustments and member withdrawals. There are 45,400 retirees and beneficiaries currently receiving payments compared to 39,700 at the end of 2004. In addition, elections of lump sum cash-outs of the UCRP and participant withdrawals from the Retirement Savings Plans grew by $350 million and $74 million in 2006 and 2005, respectively. In 2006, participant withdrawals from the Retirement Savings Plans were affected by former employees at the Los Alamos National Laboratory transitioning from the University to the LANS.

Additional information on the retirement plans can be obtained from the 2006 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS-VERIP by writing to the University of California, Office of the President, Human Resources/Benefits Department, Financial Services and Plan Disbursements, 300 Lakeside Drive, Suite 400, Oakland, California 94612.

LOOKING FORWARD

California has always been a leader in generating new ideas and providing solutions for the challenges facing our nation and the world. The University of California has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

Major financial strengths of the University include a diverse source of revenues, including those from the state of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises. The different sources of revenue are especially important at this time as the state funded portion of the operating budget has experienced considerable pressure leading to non-instructional program cuts, student fee increases and enrollment caps.

Currently, the state is continuing its work to resolve its financial crisis in which expenditures have continued to exceed revenues. Two years ago, the University and the Governor agreed on a Compact to provide guidance and financial commitments to a long-term resource plan for the University. The Compact addresses fundamental financial support, enrollment, student fees and other key program elements for 2006 through 2011. It provides a financial foundation for the University and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the University commits to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas.

As a result of some improvement in the state's financial position, resident student fees will not be increased in 2007 as they have been for the past 4 years in order to maintain the quality of instructional programs. However, nonresident undergraduate student tuition will be raised by 5 percent. Consistent with past practice, a portion of the fee increases will be used for financial aid.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. Large increases in future federal funding for research are not likely. The federal budget outlook has deteriorated due to the current budget deficit and discussions regarding the reduction of deficits over the next few years. This may lead to future congressional efforts to limit domestic discretionary spending increases in areas such as research and would have important ramifications for the University's research budget.

The University's medical centers have demonstrated very positive financial results, although they continue to face financial challenges in a price-sensitive, managed care environment, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them are increasing significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Recent changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake.

The continuing financial success of the medical centers is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical centers remain competitive in their respective markets by reducing costs through improved efficiencies, making strategic investments and by expanding their presence in the market through stronger links with other providers and payers. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The University's private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support in 2007 will likely reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Additional, affordable and accessible student housing will be required in order to satisfy the demand. Most campus residence halls continue to be occupied at design capacity. The University is responding to the demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on University campuses.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program will be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

University management has been authorized to establish an Academic Medical Center Pooled Revenue Bond Indenture (AMC Indenture) that will allow the operating revenues of the five University medical centers to be pooled and pledged for debt repayment, regardless of which medical center uses the proceeds of the financing. Currently, the operating revenues of each medical center are pledged for the financing of their specific capital projects. The University anticipates beginning the implementation of the AMC Indenture during 2007.

In March 2004, a general obligation bond package for education was approved by the California voters. As a result, the University received $690 million for its capital program for the two-year period 2005 and 2006. In addition, since 2001, the state of California also authorized more than $261 million for the classroom design and construction at the Merced campus. Also, legislation was approved to authorize $320 million in lease revenue bonds for the four California Institutes for Science and Innovation to provide the balance of funding needed for design and construction of the Institutes.

Another general obligation bond measure is planned for submittal to the California voters on the November 2006 ballot, supporting capital appropriations for the following two years. The general obligation bond measure would provide capital funding of approximately $345 million per year for University facilities. In addition, it would also include a total of $200 million over the two-year period for facilities and state-of-the art equipment to support expansion of medical education programs. This level of support from the state will not meet all of the University's capital needs and institutional resources will continue to be necessary to address many critical projects.

There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended, as required, to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

The University operates and manages, or participates in the management of, three national laboratories on behalf of the DOE since their formation, without financial gain, as a public service to the nation.

The University's contract to manage the Los Alamos National Laboratory for the National Nuclear Security Administration of the United States Department of Energy expired on May 31, 2006. The University has become a member in a joint venture, Los Alamos National Security, LLC (LANS), who now operates and manages the Los Alamos National Laboratory. In conjunction with the selection of LANS as the successor contractor to the University for the management of the Los Alamos National Laboratory, UCRP assets and liabilities attributable to approximately 6,500 employees transferring from the University to the LANS who are not yet vested in the UCRP, or who did not elect to become inactive or retire under the UCRP, are expected to be transferred to a successor pension plan at a future date provided all required and advisable regulatory rulings and approvals are obtained. The amount of the assets and liabilities to be transferred that are associated with these employees is not currently known and is dependent on the assumptions used and future discussions with the DOE.

The current University contract to manage the Lawrence Livermore National Laboratory for the National Nuclear Security Administration of the United States Department of Energy is scheduled to expire on September 30, 2007. The federal government is currently conducting a competition for a successor contractor. The United States Department of Energy anticipates that a decision will be made in February or March of calendar year 2007 and that the new contract will become effective October 1, 2007.

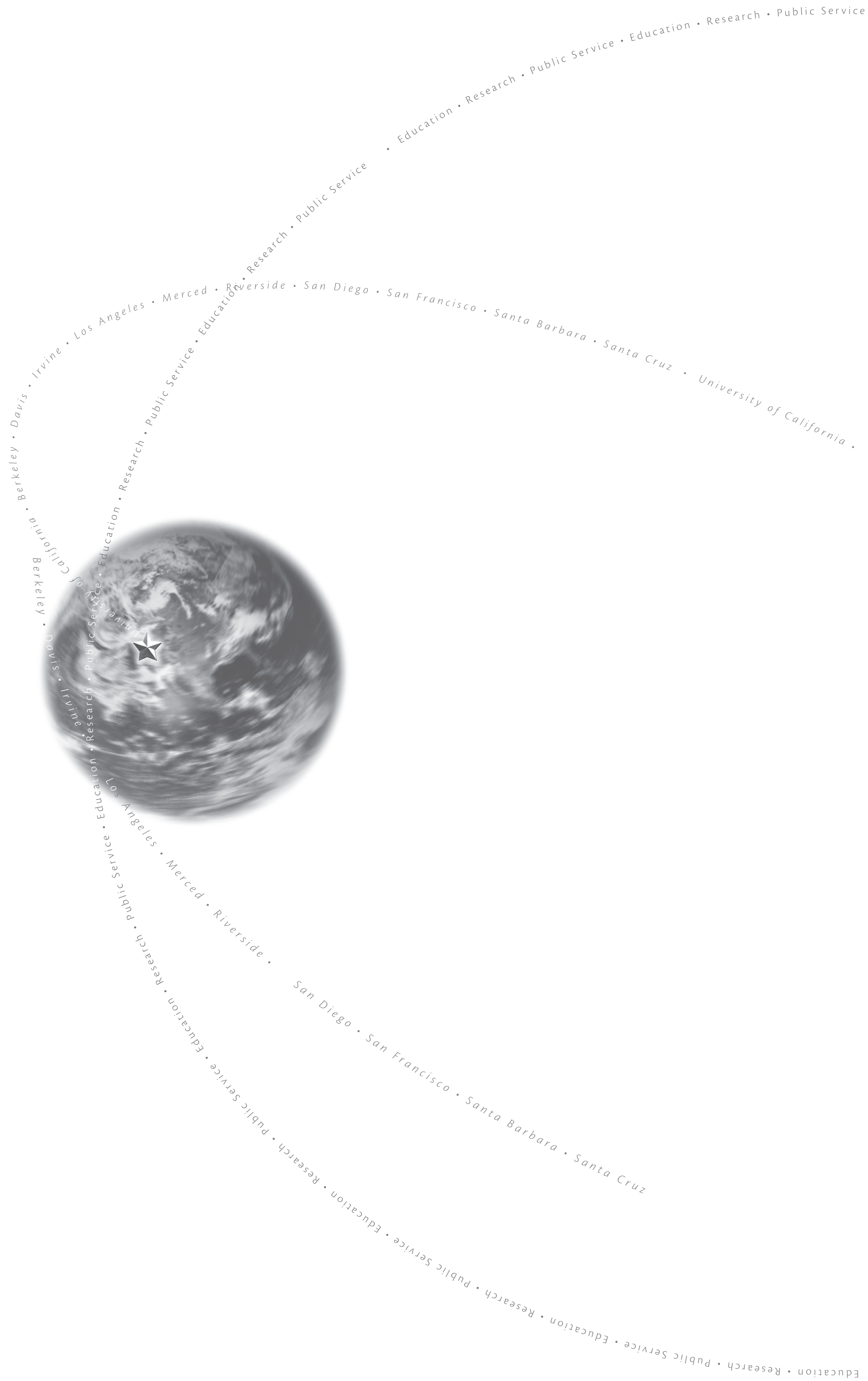
The Regents voted at their September 2006 meeting to participate in the competition as part of a joint venture in the form of a limited liability company. If the University's team is awarded the successor contract, the separate corporate entity is expected to be reported as a joint venture using the equity method in the University's financial statements. Regardless of whether the University's team is awarded the successor contract, the gross revenues and expenses associated with the successor contract are not expected to be reported in the University's statement of revenues, expenses and changes in net assets. In addition, UCRP assets and liabilities attributable to certain transferring employees who are not yet vested in the UCRP, or who do not elect to become inactive or retire under the UCRP, are expected to be transferred to a successor pension plan at a future date provided all required and advisable regulatory rulings and approvals are obtained.

The UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, there have not been any University contributions to the UCRP. In addition, since 1990, the required employee member contributions to the UCRP have been suspended. However, contributions are required to be made to the separate defined contribution plan maintained by the University. The Regents recently updated the funding policy for UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95 percent to 110 percent. The University will implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time to 16 percent of covered compensation, shared between employer and employees, based upon UCRP's current normal cost. The Regents have authorized the initial resumption of shared employer and employee contributions beginning July 1, 2007, gradually increasing over future years toward the normal cost, subject to funding and completion of the budget process.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.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REPORT OF INDEPENDENT AUDITORS

To The Regents of the University of California:

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of the University of California (the "University"), a component unit of the State of California, present fairly, in all material respects, the respective financial position and plans' fiduciary net assets of the University, its aggregate discretely presented component units and the University of California Retirement System (the "Plans"), respectively, at June 30, 2006 and 2005, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 22 percent, 24 percent, and 27 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2006; we also did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 21 percent, 23 percent and 31 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of California campus foundations component units, is based upon the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

PricewaterhouseCoopers LLP

San Francisco, California
October 9, 2006

UNIVERSITY OF CALIFORNIA

STATEMENTS OF NET ASSETS

AT JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
ASSETS				
Cash and cash equivalents	$ 202,026	$ 164,457	$ 126,024	$ 79,669
Short-term investments	4,019,551	3,889,940	332,033	341,603
Investment of cash collateral	2,227,050	1,846,094	198,670	222,369
Investments held by trustees	59,026	69,044		
Accounts receivable, net	1,954,675	1,745,854	6,816	9,512
Pledges receivable, net	32,592	34,370	105,149	127,343
Current portion of notes and mortgages receivable, net	28,758	35,672	389	844
Inventories	129,210	123,829		
Department of Energy receivable	148,107	391,000		
Other current assets	119,475	89,445	7,752	9,053
Current assets	**8,920,470**	**8,389,705**	**776,833**	**790,393**
Investments	9,224,614	8,184,960	3,031,965	2,608,487
Investment of cash collateral	1,228,274	732,092	81,790	65,532
Investments held by trustees	700,701	879,338		
Pledges receivable, net	61,421	68,793	324,385	299,307
Notes and mortgages receivable, net	264,466	250,320	121	69
Department of Energy receivable	27,473	49,390		
Capital assets, net	16,665,001	15,530,305		
Other noncurrent assets	156,233	142,607	16,240	19,293
Noncurrent assets	**28,328,183**	**25,837,805**	**3,454,501**	**2,992,688**
Total assets	**37,248,653**	**34,227,510**	**4,231,334**	**3,783,081**
LIABILITIES				
Accounts payable	1,322,076	1,098,067	5,878	9,443
Accrued salaries and benefits	385,915	636,086		
Deferred revenue	678,820	611,451	1,453	1,472
Collateral held for securities lending	3,455,800	2,577,544	280,460	287,901
Commercial paper	550,000	550,000		
Current portion of long-term debt	407,888	450,013		
Funds held for others	252,762	236,258	71,053	61,433
Department of Energy laboratories' liabilities	138,936	389,097		
Other current liabilities	798,279	759,174	22,936	20,914
Current liabilities	**7,990,476**	**7,307,690**	**381,780**	**381,163**
Federal refundable loans	193,098	189,574		
Self-insurance	374,912	403,315		
Obligations under life income agreements	20,456	20,124	141,761	141,752
Long-term debt	7,918,360	6,945,272		
Other noncurrent liabilities	351,328	383,918	32,924	10,224
Noncurrent liabilities	**8,858,154**	**7,942,203**	**174,685**	**151,976**
Total liabilities	**16,848,630**	**15,249,893**	**556,465**	**533,139**
NET ASSETS				
Invested in capital assets, net of related debt	8,535,316	8,108,355		
Restricted:				
Nonexpendable:				
Endowments and gifts	872,707	823,497	1,526,885	1,360,238
Expendable:				
Endowments and gifts	4,657,857	4,260,682	2,131,606	1,873,361
Other, including debt service, loans, capital projects and appropriations	398,332	294,088		
Unrestricted	5,935,811	5,490,995	16,378	16,343
Total net assets	**$20,400,023**	**$18,977,617**	**$3,674,869**	**$3,249,942**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees, net	$ 1,662,948	$ 1,557,828		
Grants and contracts, net				
Federal	2,814,091	2,739,414		
State	423,506	411,214		
Private	744,352	680,817		
Local	162,627	145,104		
Medical centers, net	4,205,635	3,833,364		
Educational activities, net	1,122,765	1,062,723		
Auxiliary enterprises, net	893,248	846,608		
Department of Energy laboratories	4,231,922	4,146,261		
Campus foundation private gifts			$ 387,814	$ 332,474
Other operating revenues, net	508,539	376,296	1,182	7,433
Total operating revenues	**16,769,633**	**15,799,629**	**388,996**	**339,907**
OPERATING EXPENSES				
Salaries and wages	7,879,858	7,440,520		
Benefits	1,608,156	1,483,478		
Scholarships and fellowships	357,965	363,161		
Utilities	349,788	310,620		
Supplies and materials	1,826,954	1,706,728		
Depreciation and amortization	997,023	954,878		
Department of Energy laboratories	4,197,685	4,112,077		
Campus foundation grants			416,248	343,388
Other operating expenses	2,299,274	2,107,948	13,115	11,335
Total operating expenses	**19,516,703**	**18,479,410**	**429,363**	**354,723**
Operating loss	**(2,747,070)**	**(2,679,781)**	**(40,367)**	**(14,816)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,572,565	2,463,075		
State financing appropriations	146,816	120,667		
Private gifts, net	624,052	536,995		
Investment income:				
Short Term Investment Pool and other, net	307,937	213,054		
Endowment, net	133,345	129,941		
Securities lending, net	5,376	4,577	435	506
Campus foundations			68,330	60,696
Net appreciation in fair value of investments	315,422	278,144	234,439	150,769
Interest expense	(347,172)	(295,312)		
Loss on disposal of capital assets	(5,814)	(36,715)		
Other nonoperating revenues (expenses)	(14,167)	(5,930)	2,782	340
Net nonoperating revenues	**3,738,360**	**3,408,496**	**305,986**	**212,311**
Income before other changes in net assets	**991,290**	**728,715**	**265,619**	**197,495**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	220,158	189,295		
Capital gifts and grants, net	166,502	217,218		
Permanent endowments	44,456	47,995	159,308	122,095
Increase in net assets	**1,422,406**	**1,183,223**	**424,927**	**319,590**
NET ASSETS				
Beginning of year	18,977,617	17,794,394	3,249,942	2,930,352
End of year	**$20,400,023**	**$18,977,617**	**$3,674,869**	**$3,249,942**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 1,654,279	$ 1,560,856		
Grants and contracts	4,228,316	3,966,616		
Medical centers	4,105,737	3,823,905		
Educational activities	1,117,729	1,070,890		
Auxiliary enterprises	899,250	854,447		
Collection of loans from students and employees	59,557	72,701		
Campus foundation private gifts			$ 384,981	$ 337,616
Payments to employees	(8,115,186)	(7,391,480)		
Payments to suppliers and utilities	(4,479,424)	(4,030,513)		
Payments for benefits	(1,636,389)	(1,543,699)		
Payments for scholarships and fellowships	(357,941)	(363,088)		
Loans issued to students and and employees	(66,345)	(60,794)		
Payments to campuses and beneficiaries			(429,702)	(369,796)
Other receipts (payments)	389,231	217,929	(2,950)	3,745
Net cash used by operating activities	**(2,201,186)**	**(1,822,230)**	**(47,671)**	**(28,435)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,577,962	2,468,066		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	39,634	46,405	141,461	107,354
Other private gifts	587,942	503,121		
Student direct lending receipts	452,299	453,640		
Student direct lending payments	(452,299)	(453,640)		
Other receipts	15,882	31,549		
Net cash provided by noncapital financing activities	**3,221,420**	**3,049,141**	**141,461**	**107,354**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	522,862	271,904		
Payments of principal	(522,862)	(271,904)		
Interest paid	(17,250)	(9,328)		
State capital appropriations	226,311	159,884		
State financing appropriations	3,421	4,483		
Capital gifts and grants	131,149	194,797		
Proceeds from debt issuance	1,886,469	1,184,268		
Proceeds from the sale of capital assets	19,476	13,023		
Proceeds from insurance recoveries	1,024	4,040		
Purchase of capital assets	(1,682,065)	(2,094,088)		
Refinancing or prepayment of outstanding debt	(814,943)	(337,286)		
Scheduled principal paid on debt and capital leases	(201,203)	(169,058)		
Interest paid on debt and capital leases	(324,226)	(241,799)		
Net cash used by capital and related financing activities	**(771,837)**	**(1,291,064)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short Term Invesment Pool	63,559,787	59,541,654		
Other investments	3,415,784	4,012,865	679,159	496,911
Purchase of investments:				
Short Term Investment Pool	(64,037,298)	(59,675,274)		
Other investments	(3,573,965)	(4,064,654)	(798,646)	(645,654)
Investment income, net of investment expenses	424,864	342,684	72,052	60,802
Net cash provided (used) by investing activities	**(210,828)**	**157,275**	**(47,435)**	**(87,941)**
Net increase (decrease) in cash	**37,569**	**93,122**	**46,355**	**(9,022)**
Cash and cash equivalents, beginning of year	164,457	71,335	79,669	88,691
Cash and cash equivalents, end of year	**$ 202,026**	**$ 164,457**	**$ 126,024**	**$ 79,669**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$ (2,747,070)	$ (2,679,781)	$ (40,367)	$ (14,816)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	997,023	954,878		
Noncash gifts			(18,543)	(24,547)
Allowance for doubtful accounts	(3,254)	(1,152)	1,147	(2,314)
Loss on impairment of capital assets	672	2,491		
Change in assets and liabilities:				
Investments			(6,863)	(875)
Accounts receivable	(173,685)	(29,704)	2,511	(3,746)
Pledges receivable			(4,095)	28,134
Investments held by trustees	(53,490)	(69,706)		606
Inventories	(5,381)	(252)		
Other assets	(29,471)	(7,771)	3,066	1,786
Accounts payable	(12,559)	(11,234)	456	(7,355)
Accrued salaries and benefits	(250,171)	(39,283)		
Deferred revenue	62,992	27,931	22,019	(16)
Self-insurance	(37,607)	(5,134)		
Obligations to life beneficiaries			(6,580)	(1,871)
Other liabilities	50,815	36,487	(422)	(3,421)
Net cash used by operating activities	**$(2,201,186)**	**$(1,822,230)**	**$(47,671)**	**$(28,435)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 84,155	$ 53,501		
Capital assets acquired with a liability at year-end	84,496	103,130		
Investments held by trustees	(167,599)	205,242		
State financing appropriations	143,395	116,184		
Gifts of capital assets	18,399	54,880	$ 9,570	$ 25,265
Other noncash gifts	25,629	5,750	54,376	41,006
Loss on the disposal of capital assets	(5,814)	(36,715)		
Debt service for lease revenue bonds	(157,772)	(127,287)		
Refinancing of interim loans under lease-purchase agreements	(124,425)	(172,559)		
Securities lending activity	878,256	(1,037,217)	(6,746)	16,858

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF PLANS' FIDUCIARY NET ASSETS

AT JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2006	2006	2006	2005
ASSETS					
Investments	$ 44,199,460	$ 9,588,967	$ 77,892	$ 53,866,319	$ 51,372,279
Participants' interest in external mutual funds		3,018,557		3,018,557	2,358,936
Investment of cash collateral	10,445,933	3,546,652		13,992,585	10,893,857
Participant 403(b) loans		81,819		81,819	70,620
Accounts receivable:					
Contributions	74,022	442		74,464	108,322
Investment income	139,546	39,633		179,179	159,797
Security sales and other	289,339	58,342		347,681	129,866
Total assets	**55,148,300**	**16,334,412**	**77,892**	**71,560,604**	**65,093,677**
LIABILITIES					
Payable for securities purchases	1,302,132	313,495		1,615,627	844,823
Member withdrawals, refunds and other payables	37,045	1,234	62	38,341	126,959
Collateral held for securities lending	10,446,899	3,547,163		13,994,062	10,891,365
Total liabilities	**11,786,076**	**3,861,892**	**62**	**15,648,030**	**11,863,147**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Members' defined benefit plan benefits	43,362,224		77,830	43,440,054	41,935,273
Participants' defined contribution plan benefits		12,472,520		12,472,520	11,295,257
Total net assets held in trust for pension benefits	**$43,362,224**	**$12,472,520**	**$77,830**	**$55,912,574**	**$53,230,530**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLANS' FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2006	2006	2006	2005
ADDITIONS (REDUCTIONS)					
Contributions:					
Participants		$ 1,001,850		$ 1,001,850	$ 917,332
Members	$ 1,746			1,746	1,653
Employer	13	20,653		20,666	4,803
Total contributions	**1,759**	**1,022,503**		**1,024,262**	**923,788**
Investment income (expense), net:					
Net appreciation in fair value of investments	1,698,374	436,646	$ 5,429	2,140,449	3,180,646
Interest, dividends and other investment income	1,253,783	440,571		1,694,354	1,489,361
Securities lending income	453,281	137,239		590,520	238,997
Investment expenses	(434,284)	(131,997)		(566,281)	(222,627)
Total investment income, net	**2,971,154**	**882,459**	**5,429**	**3,859,042**	**4,686,377**
Interest income from contributions receivable	6,506			6,506	6,865
Total additions	**2,979,419**	**1,904,962**	**5,429**	**4,889,810**	**5,617,030**
DEDUCTIONS					
Benefit payments:					
Retirement payments	930,530		5,364	935,894	829,373
Member withdrawals	70,865			70,865	70,560
Cost-of-living adjustments	176,181			176,181	160,925
Lump sum cashouts	193,999			193,999	172,144
Preretirement survivor payments	27,758			27,758	26,366
Disability payments	34,771			34,771	33,434
Death payments	6,580			6,580	6,888
Other benefit payments					439
Participant withdrawals		720,181		720,181	392,473
Total benefit payments	**1,440,684**	**720,181**	**5,364**	**2,166,229**	**1,692,602**
Expenses:					
Plan administration	32,883	7,518	8	40,409	32,837
Other	1,128			1,128	1,074
Total expenses	**34,011**	**7,518**	**8**	**41,537**	**33,911**
Total deductions	**1,474,695**	**727,699**	**5,372**	**2,207,766**	**1,726,513**
Increase in net assets held in trust for pension benefits	**1,504,724**	**1,177,263**	**57**	**2,682,044**	**3,890,517**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	41,857,500	11,295,257	77,773	53,230,530	49,340,013
End of year	**$ 43,362,224**	**$ 12,472,520**	**$ 77,830**	**$ 55,912,574**	**$ 53,230,530**

See accompanying Notes to Financial Statements

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the Governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibilities for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or financially accountable to the University, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net assets. The statement of revenues, expenses and changes in net assets excludes the activities associated with these organizations.

Specific assets and liabilities and all revenues and expenses associated with two major Department of Energy (DOE) laboratories operated and managed by the University under contracts directly with the United States Department of Energy are also included in the financial statements. In addition, the University is a member in a joint venture, Los Alamos National Security, LLC (LANS), that operates and manages the Los Alamos National Laboratory (LANL) under a contract directly with the United States Department of Energy. The University has an ongoing financial interest and financial responsibility in the separate entity, along with the other members, and the organization is jointly controlled by the University and one member. Accordingly, assets and liabilities and revenues and expenses of the joint venture are not included in the University's financial statements.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The combined financial statements of the University of California campus foundations (campus foundations) are presented discretely in the University's financial statements because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's securities lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the campus foundations' column.

The Regents has fiduciary responsibility for the University of California Retirement System (the UCRS) that includes two defined benefit plans, the University of California Retirement Plan (the UCRP) and the University of California Public Employees Retirement System (PERS) – Voluntary Early Retirement Incentive Plan (the PERS-VERIP) and three defined contribution plans in the University of California Retirement Savings Program (the UCRSP), consisting of the Defined Contribution Plan (the DC Plan), the Tax Deferred 403(b) Plan (the 403(b) Plan) and the Tax Deferred 457(b) Plan (the 457(b) Plan). The UCRS statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are also presented discretely in the University's financial statements.

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 47, *Accounting for Termination Benefits*, was adopted during the year ended June 30, 2006. Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted.

The effect of the implementation of GASB Statement No. 47 was not significant on the University's net assets or changes in net assets for the year ended June 30, 2006. There was no effect on the University's net assets or changes in net assets for the year ended June 30, 2005.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments for the University and campus foundations are primarily recorded at fair value. Generally, securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at date of donation.

Participants' interest in external mutual funds. Participants in the University's defined contribution retirement plans may invest their contributions in, and transfer plan accumulations to, funds managed by the University's Chief Investment Officer or to external mutual funds/brokerage firms on a custodial plan basis.

Foreign currency translation. Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net assets.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable. Unconditional pledges of private gifts to the University or to the campus foundations in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

Contracts directly with the United States Department of Energy. The University operates and manages two major DOE national laboratories under contracts directly with the United States Department of Energy.

The University's statement of net assets includes the DOE laboratories' liabilities associated with vendor, employee-related and certain other costs, along with the corresponding receivable from the DOE to satisfy these liabilities. Other assets, such as cash, property and equipment and other liabilities of these laboratories are owned by the United States government rather than the University and, therefore, are not included in the statement of net assets.

The statement of revenues, expenses and changes in net assets includes the operational results from the DOE laboratories under University contracts directly with the DOE. The statement of cash flows excludes the cash flows associated with the DOE laboratories since all cash transactions are recorded in bank accounts owned by the DOE.

Investment in Los Alamos National Security, LLC (LANS). LANS is a joint venture between the University and industrial members that operates and manages LANL under a contract directly with the DOE. The University's investment in LANS is accounted for using the equity method. Under the equity method, the statement of net assets includes the University's equity interest in LANS, adjusted for the equity in undistributed earnings or losses. The statement of revenues, expenses and changes in net assets includes the University's equity in current earnings or losses of LANS.

Capital assets. Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Library books and material	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections, are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Funds held for others. Funds held for others result from the University or the campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or campus foundations.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Obligations under life income agreements. Obligations under life income agreements represent actuarially-determined liabilities under gift annuity and life income contracts.

Net assets. Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University and campus foundations classify net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions that must be retained in perpetuity by the University or the campus foundations are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds.

Expendable. Net assets whose use by the University or the campus foundations is subject to externally-imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. The University's unrestricted net assets may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net assets may be designated for specific purposes by their Boards of Trustees. Substantially all of the University's unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net assets based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets as operating activities. The University's equity in current earnings or losses of LANS is also an operating transaction.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as the gifts are made.

Nonoperating revenues and expenses include state educational appropriations (for the support of University operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant revenue.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2006, the facilities and administrative cost recovery totaled $711.7 million, $575.8 million from federally sponsored programs and $135.9 million from other sponsors. For the year ended June 30, 2005, the facilities and administrative cost recovery totaled $678.8 million, $556.3 million from federally sponsored programs and $122.5 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

Scholarship allowances. The University recognizes scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc. and the amount that is paid by the student, as well as third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to the following revenues for the years ended June 30, 2006 and 2005:

(in thousands of dollars)

	2006	2005
Student tuition and fees	$ 436,089	$ 383,109
Auxiliary enterprises	108,972	84,924
Other operating revenues	7,781	7,340
Scholarship allowances	**$552,842**	**$475,373**

Compensated absences. The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Interest rate swap agreements. The University has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed and variable rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

In accordance with GASB standards, the fair value of the interest rate swap agreements is not reported in the University's statement of net assets and changes in fair value are not recognized in the statement of revenues, expenses and changes in net assets.

Tax exemption. The University and the campus foundations are qualified as tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income. The UCRS plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue Code.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

Comparative information. In connection with the preparation of the June 30, 2006 statement of revenues, expenses and changes in net assets, the University concluded that the expense associated with the allowance for doubtful accounts at the medical centers should be reported as an offset to medical center revenues rather than other operating expenses. As a result, revisions in classification have been made in the June 30, 2005 financial statements to reduce both medical center revenues and other operating expenses by $129.5 million.

The effect on prior period financial statements was not material. However, the management elected to make the revisions to the 2005 presentation to conform to the 2006 presentation. These revisions in classification to the University's 2005 financial statements had no effect on previously reported total assets, liabilities and net assets, or increase in net assets, or net increase or decrease in cash.

New accounting pronouncements. In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements, although it is expected that there will be a significant increase in the University's operating expenses and liabilities, as well as a significant decrease in unrestricted net assets.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for the University's fiscal year beginning July 1, 2007. This Statement establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The University is evaluating the effect that Statement No. 48 will have on its financial statements.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash. Accounts are authorized at financial institutions that maintain a minimum credit quality rating of A from an independent bond rating agency. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

At June 30, 2006 and 2005, the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was $202.0 million and $164.5 million, respectively, compared to bank balances of $176.3 million and $137.8 million, respectively. Deposits in transit are the primary difference. Bank balances of $67.3 million and $33.0 million at June 30, 2006 and 2005, respectively, are collateralized by U.S. government securities held in the name of the bank. The Federal Deposit Insurance Corporation (FDIC) insures the remaining uncollateralized bank balances for at least $400 thousand for both years.

The University does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries were $1.1 million and $1.2 million at June 30, 2006 and 2005, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2006 and 2005 was $126.0 million and $79.7 million, respectively, compared to bank balances of $88.9 million and $56.8 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term Investment Pool of $13.6 million and $22.0 million at June 30, 2006 and 2005, respectively, with a portion of the remaining uncollateralized bank balances insured by the FDIC. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's and the UCRS' investments and establishes investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), General Endowment Pool (GEP), UCRS, other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in the STIP. The available cash in the UCRS or endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in the STIP.

Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

The GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements, or represent the University's estimated interest in externally held irrevocable trusts.

Investments authorized by The Regents for the GEP, UCRS, other investment pools and separate investments include equity securities, fixed income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-out and international funds. The University's investment portfolios may include foreign currency denominated equity securities. The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for both the GEP and the UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for the GEP. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The Regents have also authorized certain employee contributions to defined contribution plans included as part of the UCRS' investments to be maintained in external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is not managed by the Chief Investment Officer and totaled $3.02 billion and $2.36 billion at June 30, 2006 and 2005, respectively.

Campus foundations' investments in pools managed by the Chief Investment Officer are classified for investment type purposes as either commingled balanced funds or commingled money market funds in the campus foundations' column depending on whether they are invested in the GEP or STIP, respectively. Similarly, the UCRS' investment in the STIP is classified in the commingled money market category in the UCRS column.

The composition of investments, by investment type, at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Equity securities:						
Domestic	$ 2,189,734	$ 2,240,505	$ 462,805	$ 457,015	$ 24,554,247	$ 27,122,633
Foreign	1,155,743	922,025	118,678	99,195	7,985,900	3,456,570
Equity securities	**3,345,477**	**3,162,530**	**581,483**	**556,210**	**32,540,147**	**30,579,203**
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1,497,513	1,648,305	83,863	127,216	1,703,950	2,598,387
U.S. Treasury strips	41,791	193,062			1,266,221	1,919,297
U.S. TIPS	243,672	254,419			2,841,164	2,581,848
U.S. government-backed securities	3,764	4,288	5,560	6,042	14,655	16,696
U.S. government-backed–asset-backed securities	3,098	8,248	21	25	5,141	78,870
U.S. government guaranteed	**1,789,838**	**2,108,322**	**89,444**	**133,283**	**5,831,131**	**7,195,098**
Other U.S. dollar denominated:						
Corporate bonds	1,869,577	1,932,914	58,191	60,524	2,443,103	2,809,783
Commerical paper	2,685,766	2,910,091			758,403	788,560
U.S. agencies	1,698,310	908,297	88,660	81,354	2,889,014	3,210,451
U.S. agencies–asset-backed securities	313,912	247,855	2,089	2,971	1,710,186	2,994,743
Corporate–asset-backed securities	123,151	52,820	2,452	3,240	722,671	553,811
Supranational/foreign	789,424	911,665	618	640	1,384,799	737,758
Other	536	707	1,211	856	5,930	6,918
Other U.S. dollar denominated	**7,480,676**	**6,964,349**	**153,221**	**149,585**	**9,914,106**	**11,102,024**
Foreign currency denominated:						
Government/soverign					1,325,283	
Corporate	6,437	10,423			68,809	74,037
Foreign currency denominated	**6,437**	**10,423**			**1,394,092**	**74,037**
Commingled funds:						
Absolute return funds	518,693	441,851	204,628	148,016		
Balanced funds			616,777	504,619		
U.S. equity funds			297,484	291,870	165,655	
Non-U.S. equity funds	356,785	273,715	404,993	251,970	1,147,414	636,495
U.S. bond funds	34,800	44,799	195,062	228,860		
Non-U.S. bond funds			9,306	14,429		
Money market funds	10,127	7,304	372,968	343,260	583,432	534,683
Commingled funds	**920,405**	**767,669**	**2,101,218**	**1,783,024**	**1,896,501**	**1,171,178**
Private equity	210,366	120,116	170,821	110,739	888,217	675,666
Mortgage loans	246,741	99,021	6,752	4,546		
Insurance contracts					712,681	512,468
Real estate	105,576	24,940	85,411	67,319	229,968	62,605
Equitized market neutral investments	49,607				459,476	
Externally held irrevocable trusts	216,570	194,883	59,317	62,094		
Other investments	6,131	3,507	116,331	83,290		
Campus foundations' investments with the University	(938,304)	(861,196)				
UCRS investment in the STIP	(195,355)	(519,664)				
Total investments	**13,244,165**	**12,074,900**	**3,363,998**	**2,950,090**	**$53,866,319**	**$51,372,279**
Less: Current portion	(4,019,551)	(3,889,940)	(332,033)	(341,603)		
Noncurrent portion	**$ 9,224,614**	**$ 8,184,960**	**$3,031,965**	**$2,608,487**		

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance – in the rating agency's opinion – that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for the STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for the STIP, the two-year Treasury note, has no credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better and commercial paper must be rated at least A-1 or P-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as the UCRS and GEP by virtue of the benchmarks chosen for the fixed income portion of those pools. Those fixed income benchmarks, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively, are comprised of approximately 30 percent high grade corporate bonds and 30-35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35-40 percent are government-issued bonds. Credit risk in the UCRS and GEP is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income securities may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both the UCRP and the GEP allows for dedicated allocations to non investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

The credit risk profile for fixed and variable income securities at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Fixed or variable income securities:						
U.S. government guaranteed	$1,789,838	$2,108,322	$ 89,444	$133,283	$5,831,131	$7,195,098
Other U.S. dollar denominated:						
AAA	2,329,189	1,598,678	96,239	90,112	5,420,532	7,016,174
AA	944,285	1,126,240	2,744	1,758	165,247	163,928
A	629,152	698,977	13,155	13,675	1,357,097	1,122,387
BBB	663,194	526,509	23,901	22,165	1,402,909	1,575,264
BB	87,307	103,848	9,724	20,723	895,223	435,711
B	1,912		5,162	488	253,499	
CC					794	
CCC					34,506	
D					69,828	
A-1 / P-1	2,825,637	2,910,092			314,471	788,560
Not rated		5	2,296	664		
Foreign currency denominated:						
AAA					596,879	
AA					669,442	
A	6,437	2,822			127,675	67,779
BB		894				6,258
Not rated		6,707			96	
Commingled funds:						
U.S. bond funds: Not rated	34,800	44,799	195,062	228,860		
Non-U.S. bond funds: Not rated			9,306	14,429		
Money market funds: Not rated	10,127	7,304	372,968	343,260	583,432	534,683
Mortgage loans: Not rated	246,741	99,021	6,752	4,546		
Insurance contracts: Not rated					712,681	512,468

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

The University's and the UCRS' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Some of the investments at certain of the campus foundations are exposed to custodial credit risk. These investments may be uninsured, or not registered in the name of the campus foundation and held by a custodian.

Custodial credit risk exposure related to investments is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	**2005**
Equity securities:		
Domestic	$200,454	$193,151
Foreign	16,286	12,844
Fixed or variable income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	42,123	46,302
U.S. government-backed securities	1,782	1,604
Other U.S. dollar denominated:		
Corporate bonds	11,247	16,467
U.S. agencies	18,017	24,033
Corporate–asset-backed securities	467	275
Custodial credit risk exposure	**$290,376**	**$294,676**

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the University and UCRS portfolios include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of total investments at June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Federal National Mortgage Association	$1,151,309	$701,673	$53,686	$40,627		$3,545,401
Federal Home Loan Mortgage Association	805,423					
Vanguard S&P 500 Index Fund			25,064			

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed income portion of the UCRS and GEP limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed or variable income securities at June 30, 2006 and 2005 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	2.5	2.8	3.2	1.3	2.6	2.1
U.S. Treasury strips	10.8	14.0			12.4	14.0
U.S. TIPS	5.1	4.4			5.1	4.4
U.S. government-backed securities	6.6	6.9	3.9	3.6	6.6	6.9
U.S. government-backed–asset-backed securities	5.1	2.6	3.2	0.6	4.6	2.7
Other U.S. dollar denominated:						
Corporate bonds	2.4	2.9	5.1	5.4	7.6	9.1
Commercial paper	0.0	0.0			0.0	0.0
U.S. agencies	1.1	1.8	2.8	1.6	1.9	3.2
U.S. agencies–asset-backed securities	4.6	2.3	3.6	0.9	4.6	2.3
Corporate–asset-backed securities	8.4	1.5	1.3	1.6	9.4	1.7
Supranational / foreign	2.0	2.3	1.8	2.8	6.8	8.3
Other	8.8	8.1	2.0	2.8	13.5	14.8
Foreign currency denominated:						
Government/sovereign					6.2	
Corporate	27.1	23.2			12.7	13.1
Commingled funds:						
U.S. bond funds	4.8	4.2	5.0	4.1		
Non-U.S. bond funds			5.9	5.0		
Money market funds	0.0	0.0	1.1	2.1	1.1	2.1
Mortgage loans	0.0	0.0	0.0	0.0		
Insurance contracts					0.0	0.0

The University considers the effective durations for mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates, insurance contracts can be liquidated without loss of principal and money market funds have a constant $1 share value due to the short-term, liquid nature of the underlying securities.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2006 and 2005, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Mortgage-backed securities	$ 372,010	$ 308,923	$ 72,678	$ 56,231	$ 1,922,793	$ 3,522,099
Collateralized mortgage obligations	68,151		13,618	19,944	515,205	105,325
Other asset-backed securities			2,409	2,965		
Callable bonds	736,511	22,160	1,095	1,245	715,613	880,196
Total	**$1,176,672**	**$331,083**	**$89,800**	**$80,385**	**$3,153,611**	**$4,507,620**

Mortgage-Backed Securities. These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2006 and 2005, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Mortgage-backed securities	6.1	2.1	2.8	1.5	7.7	1.8
Collateralized mortgage obligations	3.5		2.3	1.5	3.8	3.5
Other asset-backed securities			1.3	1.7		
Callable bonds	1.5	5.2	4.2	1.5	3.7	4.0

Foreign Currency Risk

The University's strategic asset allocation policy for the UCRS and GEP include allocations to non-US equities and non-dollar denominated bonds. The benchmarks for these investments are not hedged, therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2006 and 2005, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Equity securities						
Euro	$ 367,499	$ 389,606	$ 30,672	$ 25,176	$ 2,487,647	$ 1,489,910
British Pound	263,801	106,799	25,882	19,616	1,801,308	356,110
Japanese Yen	246,175	76,623	25,662	20,855	1,749,324	256,755
Swiss Franc	82,850	36,087	8,353	6,669	546,206	124,430
Canadian Dollar	61,319	12,175	2,673	5,396	494,698	41,978
Australian Dollar	50,169	41,335	2,391	5,548	365,805	157,685
Swedish Krona	19,900	40,824	1,020	1,990	150,954	160,911
Hong Kong Dollar	27,562	16,883	4,640	1,890	162,195	57,041
Singapore Dollar	11,519	124,181	1,731	858	72,992	503,627
Danish Krone	6,359	37,484	941	319	48,244	151,988
Norwegian Krone	8,819	22,671	396		61,473	89,768
South Korean Won	3,872		1,311		16,043	
New Zealand Dollar	1,266	13,119		142	9,813	52,350
South African Rand	2,085	2,276	343	848	8,639	7,529
Thai Baht	1,431	949			5,931	3,138
Other	1,117	1,013	12,663	9,888	4,628	3,350
Subtotal	**1,155,743**	**922,025**	**118,678**	**99,195**	**7,985,900**	**3,456,570**
Fixed income securities:						
Euro					657,968	
Japanese Yen					485,715	
British Pound					91,941	
Australian Dollar					4,948	74,037
Canadian Dollar	6,437	10,423			100,857	
Swedish Krona					13,523	
Danish Krone					11,857	
Swiss Franc					11,479	
Polish Zloty					8,327	
Singapore Dollar					4,232	
Norwegian Krone					3,245	
Subtotal	**6,437**	**10,423**			**1,394,092**	**74,037**
Commingled funds:						
Various currency denominations:						
Balanced funds			146,160	117,337		
Non-U.S. equity funds	356,785	273,715	362,304	188,702	1,147,414	636,495
Non-U.S. bond funds			5,742	4,640		
Subtotal	**356,785**	**273,715**	**514,206**	**310,679**	**1,147,414**	**636,495**
Total exposure to foreign currency risk	**$1,518,965**	**$1,206,163**	**$632,884**	**$409,874**	**$10,527,406**	**$4,167,102**

Futures, Forward Contracts, Options and Swaps

The University may include futures, forward contracts, options and swap contracts in its investment portfolios. The Board of Trustees for each campus foundation may also authorize these contracts in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets, there is no fair value for these contracts at the end of the year included in the statement of net assets. Forward contracts are similar to futures, except they are custom contracts and are not exchange traded. They are the primary instrument used in currency management.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University records premiums paid for the purchase of these options in the statement of net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any option contracts at June 30, 2006 or June 30, 2005.

A swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The University records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any interest rate swap contracts at June 30, 2006 or June 30, 2005.

The University could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the University may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The University seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

The University's Investment Pools

The composition of the University of California's investments at June 30, 2006, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	STIP	GEP	OTHER	TOTAL
Equity securities:				
Domestic		$ 2,100,467	$ 89,267	$ 2,189,734
Foreign		1,137,368	18,375	1,155,743
Fixed or variable income securities:				
U.S. government guaranteed	$ 1,372,483	370,924	46,431	1,789,838
Other U.S. dollar denominated	6,357,114	1,058,698	64,864	7,480,676
Foreign currency denominated		6,437		6,437
Commingled funds		880,827	39,578	920,405
Private equity		205,477	4,889	210,366
Mortgage loans	246,473		268	246,741
Real estate		90,765	14,811	105,576
Externally held irrevocable trusts			216,570	216,570
Equitized market neutral investments		49,607		49,607
Other investments			6,131	6,131
Subtotal	**7,976,070**	**5,900,570**	**501,184**	**14,377,824**
Campus foundations' investments with the University	(356,862)	(510,446)	(70,996)	(938,304)
UCRS investment in the STIP	(195,355)			(195,355)
Total investments	**$7,423,853**	**$5,390,124**	**$430,188**	**$13,244,165**

The total investment return, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the year ended June 30, 2006 was 11.6 percent for the GEP and 7.1 percent for the UCRS. The investment return, representing combined income and realized gains or losses, for the STIP during the same period was 4.2 percent. Other investments consist of numerous, small portfolios of investments, or individual securities, each with its individual rate of return.

Related Party Relationships with the University

The UCRS and campus foundations may invest available cash in the STIP. Shares are purchased or redeemed in the STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of the STIP investments, is allocated to the UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in the STIP are recorded by the University of California as the manager of the pool.

The campus foundations may purchase or redeem shares in the GEP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the campus foundations based upon the number of shares held.

Campus Foundations

Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net assets and included in the campus foundations' statement of net assets. Under the accounting policies elected by each separate foundation, certain foundations classify all or a portion of their investment in the STIP as cash and cash equivalents, rather than investments. Substantially all of the campus foundations' investments managed by the Chief Investment Officer are categorized as commingled funds by the campus foundations in the composition of investments.

The fair value of the campus foundations' cash and cash equivalents and investments that are invested with the University, by investment pool, at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	2006	2005
STIP	$ 356,862	$ 332,190
GEP	510,446	438,476
Other investment pools	70,996	90,530
Campus foundations' investments with the University	**938,304**	**861,196**
Classified as cash and cash equivalents by campus foundations	(13,626)	(22,024)
Classified as investments by campus foundations	**$924,678**	**$839,172**

Endowment investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by and distributed to the campus foundations totaling $27.7 million and $28.9 million for the years ending June 30, 2006 and 2005, respectively.

The UCRS

The UCRS had $195.4 million and $519.7 million invested in the STIP at June 30, 2006 and 2005, respectively. These investments are also excluded from the University's statement of net assets and are included in the UCRS' statement of plans' fiduciary net assets and categorized as commingled funds in the composition of investments. The STIP investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by and distributed to the UCRS totaling $15.1 million and $16.5 million for the years ended June 30, 2006 and 2005, respectively.

Agency Relationships with the University

The STIP and GEP are external investment pools and include investments on behalf of external organizations that are associated with the University, although not significant or financially accountable to the University. These organizations are not required to invest in these pools. As with the UCRS and campus foundations, participants purchase or redeem shares in the STIP at a constant value of $1 per share and purchase or redeem shares in the GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	2006	2005
Short-term investments:		
STIP	$ 101,482	$ 91,299
GEP	129,221	113,109
Other investment pools	22,059	31,850
Total agency assets	**$252,762**	**$236,258**
Funds held for others	**$252,762**	**$236,258**

The composition of the net assets at June 30, 2006 and 2005 for the STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2006	2005	2006	2005
Investments	$ 7,976,070	$ 7,758,527	$ 5,900,570	$ 5,176,662
Investment of cash collateral	2,438,128	1,874,856	1,199,512	870,610
Securities lending collateral	(2,438,479)	(1,874,428)	(1,199,629)	(870,411)
Other assets (liabilities), net	211,170	164,884	(235,676)	(23,087)
Net assets	**$8,186,889**	**$7,923,839**	**$5,664,777**	**$5,153,774**

The changes in net assets for the STIP and GEP for the years ending June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2006	2005	2006	2005
Net assets, beginning of year	$ 7,923,839	$ 7,590,569	$ 5,153,774	$ 4,726,218
Investment income	346,615	257,079	135,263	132,116
Net appreciation (depreciation) in fair value of investments	(112,104)	(56,415)	401,586	296,536
Participant contributions (withdrawals), net	28,539	132,606	(25,846)	(1,096)
Net assets, end of year	**$8,186,889**	**$7,923,839**	**$5,664,777**	**$5,153,774**

3. SECURITIES LENDING

The University and the UCRS jointly participate in a securities lending program as a means to augment income. Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2006 and 2005, the securities in these pools had a weighted average maturity of 34 and 30 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2006, the University had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$ 383,934	$ 179,376	$ 49,531	$ 49,617	$ 4,108,073	$ 1,714,511
Foreign	283,707	168,027		5,735	1,929,957	640,123
Fixed income securities:						
U.S. government guaranteed	1,628,894	1,653,615			5,125,299	6,328,288
Other U.S. dollar denominated	1,318,482	745,494			2,535,427	1,970,652
Campus foundations' share	(230,088)	(230,783)	230,088	230,783		
Lent for cash collateral	**3,384,929**	**2,515,729**	**279,619**	**286,135**	**13,698,756**	**10,653,574**
For securities collateral:						
Equity securities:						
Domestic	1,271	5,412	447		15,942	66,978
Foreign	14,785	3,715			75,523	12,438
Fixed income securities:						
U.S. government guaranteed	111,409	139,368			421,856	686,166
Other U.S. dollar denominated	2,155	100,499			9,479	243,053
Lent for securities collateral	**129,620**	**248,994**	**447**		**522,800**	**1,008,635**
Total securities lent	**$3,514,549**	**$2,764,723**	**$280,066**	**$286,135**	**$14,221,556**	**$11,662,209**
COLLATERAL RECEIVED						
Cash	$ 3,685,888	$ 2,808,327	$ 50,372	$ 57,118	$ 13,994,062	$ 10,891,365
Campus foundations' share	(230,088)	(230,783)	230,088	230,783		
Total cash collateral received	**3,455,800**	**2,577,544**	**280,460**	**287,901**	**13,994,062**	**10,891,365**
Securities	137,473	256,335	425		551,463	1,037,456
Total collateral received	**$3,593,273**	**$2,833,879**	**$280,885**	**$287,901**	**$14,545,525**	**$11,928,821**
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	$ 725,048	$ 556,047	$ 10,000	$ 22,996	$ 2,686,754	$ 2,156,483
Commercial paper	310,425	165,808			1,050,545	643,046
Repurchase agreements	1,550,221	497,421	8,032	8,711	6,429,468	1,929,119
Corporate–asset-backed securities	464,674	402,622	9,347	7,398	1,680,586	1,561,463
Certificates of deposit/time deposits	526,415	996,601	9,995	6,997	1,781,506	3,865,060
Supranational/foreign	119,272	188,870			403,643	732,482
Other			12,998	10,997		
Commingled funds–money market funds	173			19	1,656	
Other assets (liabilities), net	(10,816)	1,600			(41,573)	6,204
Campus foundations' share	(230,088)	(230,783)	230,088	230,783		
Investment of cash collateral	**3,455,324**	**2,578,186**	**280,460**	**287,901**	**$13,992,585**	**$10,893,857**
Less: Current portion	(2,227,050)	(1,846,094)	(198,670)	(222,369)		
Noncurrent portion	**$1,228,274**	**$ 732,092**	**$ 81,790**	**$ 65,532**		

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Securities lending income	$ 136,239	$ 66,199	$ 10,823	$ 7,239	$ 590,520	$ 238,997
Securities lending fees and rebates	(130,863)	(61,622)	(10,388)	(6,733)	(566,281)	(222,473)
Securities lending investment income, net	**$ 5,376**	**$ 4,577**	**$ 435**	**$ 506**	**$ 24,239**	**$ 16,524**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University and the UCRS investment policies and other information related to each of these risks are summarized below. Campus foundations that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and the UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1 or P-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	$ 590,207	$ 434,807	$ 10,347	$ 9,398	$2,105,414	$1,686,289
AA	138,202	505,171	20,496	25,491	527,623	1,959,175
AA-	279,403				945,562	
A+	239,976				812,133	
A	40,570	221,905	11,497	9,999	310,414	860,600
A1+	300,070				1,015,501	
A-1 / P-1	276,726	1,645,486		3,499	1,457,551	6,381,589
Not rated	1,830,901		8,032	8,712	6,858,304	
Commingled funds:						
Money market funds: Not rated	173			19	1,656	
Other assets (liabilities), net: Not rated	(10,816)	1,600			(41,573)	6,204
Campus foundations' share	(230,088)	(230,783)	230,088	230,783		

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University of California and the UCRS securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and the UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restrict investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value. The campus foundation that directly participates in a securities lending program does not have a specific investment policy related to concentration of credit risk, although the lending agreement with the agent establishes restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of the total investment of cash collateral at June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Goldman Sachs	$ 285,652				$1,339,348	
Deutsche Bank Securities	244,057			$ 8,711	825,943	
JP Morgan Chase	235,992	$209,550			798,648	$812,685
Lehman Brothers	214,405				725,595	
Citigroup		175,257				679,687
Salomon Brothers	188,175					
Fortis	182,473					
U.S. Bancorp	173,799					
Bank of America	173,091					
Morgan Stanley			$ 8,056			
AIG Sun America				2,998		
Campus foundations' share	(105,791)	(31,628)	105,791	31,628		

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and the UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed or variable income securities associated with the investment of cash collateral at June 30, 2006 and 2005 is as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	43	50	44	43	43	50
Commercial paper	149	23			149	23
Repurchase agreements	3	1	3	1	3	1
Corporate–asset-backed securities	16	35	25	25	16	35
Certificates of deposit/time deposits	62	37	13	17	62	37
Supranational/foreign	34	26			34	26
Other			17	25		
Commingled funds:						
Money market funds	3			1	3	

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2006 and 2005, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2005	2006	2005	2006	2005
Other asset-backed securities	$ 464,674	$ 412,259	$ 9,347	$ 7,398	$ 1,680,586	$ 1,598,840
Variable-rate investments	892,115	713,746			3,246,290	2,768,077
Campus foundations' share	(84,551)	(92,547)	84,551	92,547		
Total	**$1,272,238**	**$1,033,458**	**$93,898**	**$99,945**	**$4,926,876**	**$4,366,917**

At June 30, 2006 and 2005, the weighted average maturity expressed in days for asset-backed securities was 16 days and 34 days, respectively, and for variable-rate investments was 40 days and 46 days, respectively.

Foreign Currency Risk

The University's and the UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

4. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was $759.7 million and $948.4 million at June 30, 2006 and 2005, respectively.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustee in the name of the University. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit.

The composition of cash and investments and effective duration associated with fixed income securities for self-insurance programs at June 30, 2006 and 2005, respectively, is as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2006	2005	2006	2005
Cash	$ 1,956	$ 1,738	0.0	0.0
U.S. government guaranteed:				
U.S. Treasury bills, notes and bonds		4,037		0.9
U.S. government-backed–asset-backed securities	38,184	47,459	3.7	2.0
Other U.S. dollar denominated:				
Corporate–asset-backed securities	62,763	62,497	2.2	3.9
U.S. agencies–asset-backed securities	373,228	308,658	3.5	2.6
Commingled funds–money market funds	20,133	18,274	0.0	0.0
Total	**$496,264**	**$442,663**		

Asset-backed securities, generally collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various indenture and other long-term debt requirements totaled $96.0 million and $96.5 million at June 30, 2006 and 2005, respectively.

The state financing appropriations to the University are deposited in commingled U.S. bond funds managed by the State of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair value of these deposits was $80.8 million and $79.1 million at June 30, 2006 and 2005, respectively.

In addition, other securities held by trustees are held in the name of the University. These trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements. The fair value of these investments was $15.2 million and $17.4 million at June 30, 2006 and 2005, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled $166.6 million and $408.0 million at June 30, 2006 and 2005, respectively.

Proceeds from the sale of the state's lease revenue bonds to be used for financing certain of the University's capital projects are deposited in a commingled U.S. bond fund managed by the State of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $130.4 million and $298.0 million at June 30, 2006 and 2005, respectively.

In addition, proceeds from the sale of bonds and certain gifts to the University are held by trustees to be used for financing other capital projects. The fair value of these investments was $36.2 million and $110.1 million at June 30, 2006 and 2005, respectively.

Substantially all of these investments are of a highly liquid, short term nature.

University deposits into the trusts, or receipts from the trusts, are classified as an operating activity in the University's statement of cash flows if related to the self-insurance programs, or a capital and related financing activity if related to long-term debt requirements or a capital project. Deposits directly into trusts by third parties, investment transactions initiated by trustees in conjunction with the management of trust assets and payments from trusts directly to third parties are not included in the University's statement of cash flows.

5. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	OTHER	TOTAL	
At June 30, 2006						
Accounts receivable	$ 537,731	$ 920,354	$ 77,216	$ 595,255	$ 2,130,556	$ 6,816
Allowance for uncollectible amounts	(955)	(140,298)		(34,628)	(175,881)	
Accounts receivable, net	**$536,776**	**$780,056**	**$ 77,216**	**$560,627**	**$1,954,675**	**$6,816**
At June 30, 2005						
Accounts receivable	$ 559,531	$ 823,089	$ 68,326	$ 473,730	$ 1,924,676	$ 9,512
Allowance for uncollectible amounts		(143,934)		(34,888)	(178,822)	
Accounts receivable, net	**$ 559,531**	**$ 679,155**	**$68,326**	**$438,842**	**$1,745,854**	**$ 9,512**

The University's other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees and auxiliary enterprises.

The University of California campus foundations' accounts receivable are primarily related to investment income.

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2006 and 2005:

(in thousands of dollars)

	2006	2005
Student tuition and fees	$ (3,494)	$ (607)
Grants and contracts:		
Federal	(310)	(35)
State	(159)	250
Private	(478)	(555)
Local	(14)	(35)
Medical centers	(139,131)	(129,498)
Educational activities	(39,831)	(35,165)
Auxiliary enterprises	(611)	(209)
Other operating revenues	3,654	(1,590)

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for the University of California Retirement Plan in annual installments over 30 years. During each of the years ended June 30, 2006 and 2005, under the terms of these agreements, the state of California contributed $11.3 million, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2006 and 2005, the remaining amounts owed to the retirement plan by the state were $74.0 million and $78.8 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the state of California and as a liability owed to the University of California Retirement Plan. The University of California Retirement Plan has the equivalent amounts recorded as a contribution receivable from the University in its statement of plans' fiduciary net assets.

6. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2006 and 2005 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
Total pledges receivable outstanding	$126,808	$ 141,910	$ 541,954	$ 545,926
Less: Unamortized discount to present value	(5,929)	(6,849)	(90,844)	(94,237)
Allowance for uncollectible pledges	(26,866)	(31,898)	(21,576)	(25,039)
Total pledges receivable, net	**94,013**	**103,163**	**429,534**	**426,650**
Less: Current portion of pledges receivable	(32,592)	(34,370)	(105,149)	(127,343)
Noncurrent portion of pledges receivable	**$ 61,421**	**$ 68,793**	**$324,385**	**$299,307**

Future pledge payments for each of the five fiscal years subsequent to June 30, 2006 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2007	$ 36,482	$ 110,173
2008	36,670	72,775
2009	37,114	57,399
2010	8,285	52,447
2011	5,978	28,965
2012-2016	2,259	166,745
Beyond 2016	20	53,450
Total payments on pledges receivable	**$126,808**	**$541,954**

Adjustments to the allowance for doubtful accounts associated with pledges have either increased or (decreased) the following revenues for the years ended June 30, 2006 and 2005:

(in thousands of dollars)

	2006	2005
Private gifts	$ 514	$ 117
Capital gifts and grants	4,496	(2,526)

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2006 and 2005, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
		NONCURRENT					
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
At June 30, 2006							
Notes and mortgages receivable	$ 34,108	$ 260,179	$ 17,217	$ 277,396	$ 389	$ 121	$ 510
Allowance for uncollectible amounts	(5,350)	(12,804)	(126)	(12,930)			
Notes and mortgages receivable, net	**$28,758**	**$ 247,375**	**$ 17,091**	**$264,466**	**$389**	**$121**	**$510**
At June 30, 2005							
Notes and mortgages receivable	$ 40,851	$ 238,288	$ 25,444	$ 263,732	$ 844	$ 69	$ 913
Allowance for uncollectible amounts	(5,179)	(13,332)	(80)	(13,412)			
Notes and mortgages receivable, net	**$35,672**	**$224,956**	**$25,364**	**$250,320**	**$844**	**$ 69**	**$913**

8. CONTRACTS DIRECTLY WITH THE UNITED STATES DEPARTMENT OF ENERGY

The Lawrence Livermore National Laboratory (LLNL) and the Lawrence Berkeley National Laboratory (LBNL) are operated and managed by the University under contracts directly with the DOE. The Los Alamos National Laboratory (LANL) was operated and managed by the University under a contract directly with the DOE through May 31, 2006. As described below, effective June 1, 2006, operation and management of LANL was transitioned to LANS.

Under the terms of the contracts, the DOE is financially responsible for substantially all of the liabilities incurred at the national laboratories. These may include third-party vendor payables, employee-related liabilities attributable to individuals currently working at the laboratories, and other liabilities. The University has also performed services directly for the DOE laboratories and the DOE is responsible for various costs incurred by the University in conjunction with the close-out of the LANL contract.

In accordance with the DOE's financial responsibility, the University has a current receivable from the DOE of $148.1 million and $391.0 million at June 30, 2006 and 2005, respectively, to satisfy the following current DOE liabilities.

(in thousands of dollars)

	2006	2005
DOE laboratories' liability to vendor and others, including employee-related liabilities	$ 138,936	$ 389,097
DOE laboratories liability to the University	9,171	1,903
Current portion of DOE receivable	**$148,107**	**$391,000**

In addition, the University has a noncurrent receivable from the DOE of $27.5 million and $49.4 million at June 30, 2006 and 2005, respectively, to satisfy noncurrent DOE laboratory liabilities associated with compensated absence obligations.

Separately, at June 30, 2006, the University has a $36.1 million liability, included in accounts payable, to reimburse the DOE for amounts associated with the close-out of the LANL contract.

9. INVESTMENT IN LOS ALAMOS NATIONAL SECURITY, LLC (LANS)

As of June 1, 2006, LANS became the operator and manager of the DOE's LANL. LANS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17 to 50 percent. For the one-month period ending June 30, 2006, the University recorded $1.25 million as its equity in the current earnings of LANS and received $959 thousand in cash distributions from LANS, including $500 thousand as a partial return of the University's initial investment in LANS.

LANL is owned by the United States government rather than LANS and, therefore, LANS' balance sheet excludes government-owned assets, such as cash, property and equipment, and other liabilities. The statement of earnings includes the operational results from the LANL. For the one-month period ending June 30, 2006, LANS revenue and expenses were $108.3 million and $103.7 million, respectively.

10. CAPITAL ASSETS

The University's capital assets activity for the years ended June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	2004	ADDITIONS	DISPOSALS	2005	ADDITIONS	DISPOSALS	2006
ORIGINAL COST							
Land	$ 436,691	$ 53,488	$ (494)	$ 489,685	$ 60,828	$ (1,288)	$ 549,225
Infrastructure	357,994	6,096	(784)	363,306	36,934	(4,909)	395,331
Buildings and improvements	12,934,277	1,418,219	(21,870)	14,330,626	1,659,687	(13,135)	15,977,178
Equipment	4,451,568	452,700	(650,448)	4,253,820	403,813	(278,280)	4,379,353
Libraries and collections	2,678,458	109,932		2,788,390	122,951		2,911,341
Special collections	231,677	14,060	(159)	245,578	9,327	(355)	254,550
Construction in progress	2,994,863	316,637		3,311,500	(135,067)		3,176,433
Capital assets, at original cost	**$24,085,528**	**$2,371,132**	**$(673,755)**	**$25,782,905**	**$2,158,473**	**$(297,967)**	**$27,643,411**

	2004	DEPRECIATION AND AMORTIZATION	DISPOSALS	2005	DEPRECIATION AND AMORTIZATION	DISPOSALS	2006
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 153,224	$ 11,198	$ (784)	$ 163,638	$ 6,485		$ 170,123
Buildings and improvements	4,973,298	448,528	(10,352)	5,411,474	494,508	$ (7,202)	5,898,780
Equipment	2,930,334	401,051	(609,468)	2,721,917	400,104	(264,011)	2,858,010
Libraries and collections	1,861,470	94,101		1,955,571	95,926		2,051,497
Accumulated depreciation and amortization	**$ 9,918,326**	**$ 954,878**	**$(620,604)**	**$10,252,600**	**$ 997,023**	**$(271,213)**	**$10,978,410**
Capital assets, net	**$14,167,202**			**$15,530,305**			**$16,665,001**

11. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance and other liabilities, primarily employee leave and other compensated absences with similar characteristics, a contribution owed to the University of California Retirement Plan and accrued interest, at June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2006		2005		2006		2005	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$ 149,308	$374,912	$ 158,512	$403,315				
Obligations under life income agreements	751	$ 20,456	674	$ 20,124	$ 21,675	$141,761	$ 20,593	$141,752
Other liabilities:								
Compensated absences	350,896	$ 209,398	327,481	$ 235,355				
Retirement plan	5,140	68,875	4,753	74,015				
Accrued interest	64,530		65,465					
Other	227,654	73,055	202,289	74,548	1,261	$ 32,924	321	$ 10,224
Total	**$798,279**	**$351,328**	**$759,174**	**$383,918**	**$22,936**	**$ 32,924**	**$20,914**	**$ 10,224**

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments.

Changes in self-insurance liabilities for years ended June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2006					
Liabilities at June 30, 2005	$ 154,357	$ 349,078	$ 16,178	$ 42,214	$ 561,827
Claims incurred and changes in estimates	44,563	41,781	105,659	21,601	213,604
Claim payments	(43,887)	(74,788)	(116,629)	(15,907)	(251,211)
Liabilities at June 30, 2006	**$155,033**	**$316,071**	**$ 5,208**	**$47,908**	**$524,220**
Discount rate	**6.0%**	**5.5%**	**Undiscounted**	**4.5%**	
Year Ended June 30, 2005					
Liabilities at June 30, 2004	$ 158,958	$ 353,151	$ 13,659	$ 41,194	$ 566,962
Claims incurred and changes in estimates	40,718	68,793	124,593	16,160	250,264
Claim payments	(45,319)	(72,866)	(122,074)	(15,140)	(255,399)
Liabilities at June 30, 2005	**$154,357**	**$349,078**	**$ 16,178**	**$42,214**	**$561,827**
Discount rate	**6.0%**	**5.5%**	**Undiscounted**	**4.0%**	

The decrease in the estimate for general liability claims at June 30, 2006 resulting from the increase in the discount rate from that used at June 30, 2005 was $400 thousand.

Obligations Under Life Income Agreements

Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at their fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net assets. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net assets. Resources that are expendable upon maturity are classified as restricted, expendable net assets; all others are classified as restricted, nonexpendable net assets.

Changes in current and noncurrent obligations under life income agreements for the years ended June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2006				
Current portion at June 30, 2005	$ 259	$ 415	$ 6,745	$ 13,848
Reclassification from noncurrent	1,343	1,896	7,086	13,783
Payments to beneficiaries	(1,286)	(1,876)	(6,715)	(13,072)
Current portion at June 30, 2006	**$ 316**	**$ 435**	**$ 7,116**	**$ 14,559**
Noncurrent portion at June 30, 2005	$ 7,396	$ 12,728	$ 38,161	$ 103,591
New obligations to beneficiaries	2,123	1,448	8,661	12,217
Reclassification to current	(1,343)	(1,896)	(7,086)	(13,783)
Noncurrent portion at June 30, 2006	**$ 8,176**	**$12,280**	**$39,736**	**$102,025**
Year Ended June 30, 2005				
Current portion at June 30, 2004	$ 223	$ 430	$ 7,629	$ 11,459
Reclassification from noncurrent	1,284	2,055	6,654	14,264
Payments to beneficiaries	(1,248)	(2,070)	(7,538)	(11,875)
Current portion at June 30, 2005	**$ 259**	**$ 415**	**$ 6,745**	**$ 13,848**
Noncurrent portion at June 30, 2004	$ 7,542	$ 12,577	$ 41,719	$ 92,968
New obligations to beneficiaries	1,138	2,206	3,096	24,887
Reclassification to current	(1,284)	(2,055)	(6,654)	(14,264)
Noncurrent portion at June 30, 2005	**$ 7,396**	**$12,728**	**$38,161**	**$103,591**

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2006 and 2005 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	COMPENSATED ABSENCES	RETIREMENT PLAN	OTHER	TOTAL	
Year Ended June 30, 2006					
Liabilities at June 30, 2005	$ 235,355	$ 74,015	$ 74,548	$ 383,918	$ 10,224
New obligations	304,092		4,488	308,580	25,332
Reclassification to current	(330,049)	(5,140)	(5,981)	(341,170)	(2,632)
Liabilities at June 30, 2006	**$209,398**	**$68,875**	**$73,055**	**$351,328**	**$32,924**
Year Ended June 30, 2005					
Liabilities at June 30, 2004	$ 227,226	$ 78,768	$ 38,247	$ 344,241	$ 13,105
New obligations	259,149		42,962	302,111	7,219
Reclassification to current	(251,020)	(4,753)	(6,661)	(262,434)	(10,100)
Liabilities at June 30, 2005	**$235,355**	**$74,015**	**$74,548**	**$383,918**	**$10,224**

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises, endowment income or other revenue sources that support the employee's salary.

12. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations or indirectly through structures that involve a separate limited liability corporation (LLC). Commercial paper provides for interim financing. Long-term financing includes revenue bonds, certificates of participation, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2006	2005
INTERIM FINANCING:					
Commercial paper		2.5–5.1%	2006	$ 550,000	$ 550,000
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.8%	3.0–5.3%	2006–2039	2,373,880	1,517,450
University of California Limited Project Revenue Bonds	4.9%	2.3–5.0%	2008–2038	988,040	371,590
University of California Multiple Purpose Projects Revenue Bonds	5.1%	3.0–6.0%	2006–2034	1,489,520	1,980,630
University of California Hospital Revenue Bonds	4.4%	2.0–10.0%	2006–2039	786,110	801,585
University of California Research Facilities Revenue Bonds	5.0%	3.8–5.0%	2006–2031	205,390	254,270
Adjusted by: Unamortized deferred financing costs				(57,900)	(45,586)
Unamortized bond premium				118,921	74,901
University of California revenue bonds	**4.9%**			**5,903,961**	**4,954,840**
Certificates of participation	5.2%	4.0–5.3%	2006–2032	50,815	135,220
Capital lease obligations		0.0–10.0%	2006–2030	2,012,469	1,883,428
Other University borrowings		Various	2006–2018	248,579	310,787
Student housing LLC revenue bonds	5.0%	4.0–5.8%	2007–2038	110,424	111,010
Total outstanding debt				**8,876,248**	**7,945,285**
Less: Commercial paper				(550,000)	(550,000)
Current portion of outstanding debt				(407,888)	(450,013)
Noncurrent portion of outstanding debt				**$7,918,360**	**$6,945,272**

Total interest expense during the years ended June 30, 2006 and 2005 was $394.4 million and $324.9 million, respectively. Interest expense of $47.2 million and $29.6 million associated with financing projects during the construction phase was capitalized during the years ended June 30, 2006 and 2005, respectively. The remaining $347.2 million in 2006 and $295.3 million in 2005 are reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with the student housing LLC, for the years ended June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASE OBLIGATIONS	STUDENT HOUSING LLC REVENUE BONDS	OTHER UNIVERSITY BORROWINGS	TOTAL
Year Ended June 30, 2006						
Current portion at June 30, 2005	$ 122,293	$ 7,270	$ 103,824		$ 216,626	$ 450,013
Reclassification from noncurrent	633,187	80,975	118,707	$ 95,247	238,746	1,166,862
Refinancing or prepayment of outstanding debt	(481,900)	(80,735)		(95,040)	(281,680)	(939,355)
Scheduled principal payments	(128,380)	(3,670)	(111,336)		(23,441)	(266,827)
Amortization of bond premium	(8,036)			(45)		(8,081)
Amortization of deferred financing costs	5,260			16		5,276
Current portion at June 30, 2006	**$ 142,424**	**$ 3,840**	**$ 111,195**	**$ 178**	**$150,251**	**$ 407,888**
Noncurrent portion at June 30, 2005	$ 4,832,547	$ 127,950	$ 1,779,604	$ 111,010	$ 94,161	$ 6,945,272
New obligations	1,527,695		240,377	99,290	242,913	2,110,275
Bond premium	52,056			1,361		53,417
Deferred financing costs	(17,574)			(6,168)		(23,742)
Reclassification to current	(633,187)	(80,975)	(118,707)	(95,247)	(238,746)	(1,166,862)
Noncurrent portion at June 30, 2006	**$5,761,537**	**$ 46,975**	**$1,901,274**	**$110,246**	**$ 98,328**	**$7,918,360**
Year Ended June 30, 2005						
Current portion at June 30, 2004	$ 101,919	$ 6,920	$ 92,729		$ 385,786	$ 587,354
Reclassification from noncurrent	122,293	7,270	116,476	$ 22	352,551	598,612
Refinancing or prepayment of outstanding debt			(9,532)		(500,313)	(509,845)
Scheduled principal payments	(100,950)	(6,920)	(95,849)		(21,398)	(225,117)
Amortization of bond premium	(4,985)			(22)		(5,007)
Amortization of deferred financing costs	4,016					4,016
Current portion at June 30, 2005	**$ 122,293**	**$ 7,270**	**$ 103,824**		**$216,626**	**$ 450,013**
Noncurrent portion at June 30, 2004	$ 4,286,395	$ 135,220	$ 1,194,283		$ 159,737	$ 5,775,635
New obligations	655,020		701,797	$ 109,780	286,975	1,753,572
Bond premium	13,425			1,252		14,677
Reclassification to current	(122,293)	(7,270)	(116,476)	(22)	(352,551)	(598,612)
Noncurrent portion at June 30, 2005	**$4,832,547**	**$127,950**	**$1,779,604**	**$111,010**	**$ 94,161**	**$6,945,272**

Commercial Paper

The University has available a $550.0 million commercial paper program with tax-exempt and taxable components. The program's liquidity is supported by the legally available unrestricted investments in the STIP. Commercial paper is collateralized by a pledge of the net revenues generated by the enterprise financed, not by any encumbrance, mortgage or other pledge of property and does not constitute a general obligation of the University.

Commercial paper outstanding, including interest rates, at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	2006		2005	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	2.5–3.5%	$ 430,000	2.0–2.9%	$ 430,000
Taxable	3.1–5.1%	120,000	2.9–3.3%	120,000
Total outstanding		**$ 550,000**		**$ 550,000**

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require the University to use the facilities in a way which will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues for the years ended June 30, 2006 and 2005 were $5.82 billion and $5.24 billion, respectively.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. The indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the year ended June 30, 2006 were $258.6 million.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants.

Hospital Revenue Bonds have financed certain of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with each medical center. Hospital gross revenues are excluded from General Revenues. The Hospital Revenue Bond indentures require each medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services and maintain certain other financial covenants.

Research Facilities Revenue Bonds are collateralized by a pledge of the University's share of facilities and administrative recoveries received on federal research grants and contracts. The Research Facilities Revenue Bond indentures require the University to achieve debt service coverage of 1.25 times and maintain certain other financial covenants.

Generally, in accordance with the terms of the indentures, the pledge of General Revenues under General Revenue Bonds are subordinate to the pledge of the University's share of facilities and administrative cost recoveries received on federal research grants and contracts under Research Facilities Revenue Bonds. The pledge of revenues under Limited Project Revenue Bonds are subordinate to the pledge of revenues associated with projects financed with General Revenue Bonds, but senior to pledges under Multiple Purpose Projects Revenue Bonds, commercial paper agreements or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans. All indentures permit the University to issue additional bonds as long as certain conditions are met.

2006 Activity

In July 2005, General Revenue Bonds totaling $558.4 million were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $33.1 million, together with certain University funds, were used to refund $439.2 million of outstanding Multiple Purpose Projects Revenue Bonds, $42.7 million of Research Facilities Revenue Bonds and $80.7 million of certificates of participation. The bonds mature at various dates through 2035 and have a weighted average interest rate of 4.8 percent. The deferred premium of $33.1 million will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $6.8 million over the term of the bonds and the University was able to obtain an economic gain of $25.8 million.

In October 2005, General Revenue Bonds totaling $352.8 million were sold to finance certain facilities of the University. Proceeds include a bond premium of $6.4 million and are to be used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $108.7 million. The bonds mature at various dates through 2039 and have a weighted average interest rate of 4.8 percent. The deferred premium of $6.4 million will be amortized as a reduction to interest expense over the term of the bonds.

Also in October 2005, Limited Project Revenue Bonds totaling $616.5 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds include a bond premium of $12.5 million and are to be used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling $481.1 million. The bonds mature at various dates through 2038 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

2005 Activity

In September 2004, Limited Project Revenue Bonds totaling $371.6 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds include a bond premium of $7.7 million and were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling $307.4 million. The bonds mature at various dates through 2037 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In January 2005, General Revenue Bonds totaling $283.4 million were issued to finance and refinance certain facilities of the University. Proceeds included a bond premium of $5.8 million and were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $218.4 million. The bonds mature at various dates through 2037 and have a weighted average interest rate of 4.3 percent. The deferred premium of $5.8 million will be amortized as a reduction to interest expense over the term of the bonds.

Interest Rate Swap Agreements

As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swaps with three financial institutions in connection with its $347.8 million variable-rate Refunding Hospital Revenue Bonds (Series A–E) associated with the UC Davis Medical Center. The intention of the swap transaction was to effectively change the variable interest rate on the bonds to a fixed rate of 3.1 percent.

The bonds and the related swap agreements mature on September 1, 2026 and the aggregate notional amount of swaps matches the outstanding amounts on the bonds throughout the entire term of the bonds. Under the swaps, the University pays the swap counterparties a fixed payment of 3.1385 percent and receives a variable payment computed as 67 percent of 30 day London Interbank Offered Rate (LIBOR). The University believes that over time the variable interest rates it pays on the bonds will approximate the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment on the swaps as the net payment obligation for the transaction.

Because swap rates have increased since execution of the swaps, the swaps have an estimated positive fair value of $18.6 million as of June 30, 2006. The fair value is an indication of the difference in value of the swap fixed interest payments due on the swap and swap fixed rate payments due on a swap with identical terms executed on June 30, 2006. The fair value of the interest rate swap is the estimated amount the University would have paid if the swap agreement were terminated on June 30, 2006. The fair value was estimated by the financial institutions using quoted market prices when available or a forecast of expected discounted future net cash flows.

The swap exposes the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable (67 percent of 30 day LIBOR). Tax-exempt interest rates can change without a corresponding change in the 30 day LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. For example, the swap exposes the University to risk if reductions in the federal personal income tax cause the relationship between the variable interest rate on the bonds to be greater than 67 percent of 30 day LIBOR.

Although the University has entered into the interest rate swaps with credit worthy financial institutions, there is exposure to losses in the event of non-performance by counterparties or unfavorable interest rate movements. The swap may be terminated if the insurer's credit quality rating falls below A– as issued by Fitch Ratings or Standard & Poor's, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the swap.

Interest payments on the bonds are reset weekly for Series B–D and daily for Series A and E. As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
Year Ending June 30				
2007	$ 3,375	$ 12,184	$ (954)	$ 14,605
2008	11,950	11,830	(926)	22,854
2009	12,375	11,386	(892)	22,869
2010	12,800	10,927	(856)	22,871
2011	13,225	10,453	(819)	22,859
2012–2016	73,325	44,558	(3,490)	114,393
2017–2021	86,875	29,992	(2,349)	114,518
2022–2026	102,925	12,734	(997)	114,662
2027	22,750	206	(16)	22,940
Total	**$339,600**	**$144,270**	**$(11,299)**	**$472,571**

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to the University by a state of California financing appropriation of $4.6 million and $4.8 million for the years ended June 30, 2006 and 2005, respectively. All rental payments, including those from any lawfully available cash of The Regents, have been pledged and assigned to a trustee by the lessor.

Capital Leases

The University has entered into lease-purchase agreements with the state of California that are recorded as capital leases. The state sells lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. During the construction phase, the University acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until the University is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

The University entered into lease-purchase agreements with the state totaling $156.2 million and $627.1 million during the years ended June 30, 2006 and 2005, respectively, to finance the construction of various University projects. In October 2006, the University entered into a lease-purchase agreement with the state for $79.9 million.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenues, expenses and changes in net assets, for the years ended June 30, 2006 and 2005 was $142.3 million and $115.9 million, respectively. The principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2006 and 2005 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2006	2005
Capital lease principal	$ 65,607	$ 56,058
Capital lease interest	92,889	71,599
Total	**$158,496**	**$127,657**

Capital leases entered into with other lessors totaled $84.2 million and $74.7 million for the years ended June 30, 2006 and 2005, respectively. These leases are typically for equipment, although they also include a $47.0 million capitalized ground lease in 2006.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through October 2009, totaled $726.0 million at June 30, 2006. Outstanding borrowing under these bank lines totaled $138.9 million and $134.8 million at June 30, 2006 and 2005, respectively.

The state of California may provide interim loans to the University for certain facilities to be financed through their future issuance of lease revenue bonds. The interim loans are repaid from the bond proceeds. Outstanding interim loans from the state, classified in the current portion of long-term debt in the University's statement of net assets, totaled $65.5 million and $130.1 million at June 30, 2006 and 2005, respectively.

Student Housing LLC Revenue Bonds

The University has entered into a ground lease with a legally separate, non-profit corporation that has developed and owns a student housing project on a University campus through the use of a single-project limited liability corporation. The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the construction, ownership, operation and management of the improvements are the obligation of the Ground Lessee. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of these legally separate organizations are incorporated into the University's financial reporting entity.

In December 2004, the LLC, through its conduit issuer, issued Student Housing Revenue Bonds totaling $109.8 million to finance the construction of a student housing facility. Proceeds included a bond premium of $1.3 million. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of The Regents. The bonds mature at various dates through 2038 and have a weighted average interest rate of 5.6 percent.

In April 2006, the LLC, through its conduit issuer, issued Student Housing Refunding Revenue Bonds totaling $99.3 million to partially refinance the construction of a student housing facility. Proceeds include a bond premium of $2.4 million and were used to refund $95.0 million of the outstanding Student Housing Revenue Bonds. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of The Regents. The bonds mature at various dates through 2038 and have a weighted average interest rate of 4.9 percent. The refunding resulted in deferred financing costs of $6.2 million that will be amortized over the remaining life of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $7.8 million over the term of the bonds and the LLC was able to obtain an economic gain of $3.8 million.

Interest expense, net of interest income, totaling $7.0 million and $2.2 million related to the student housing LLC revenue bonds, was capitalized during the construction phase of the project during the years ended June 30, 2006 and 2005, respectively. There have not been principal payments as the project is under construction.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2006 and thereafter are as follows:

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	OTHER UNIVERSITY BORROWINGS	STUDENT HOUSING LLC REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30										
2007	$ 551,856	$ 416,537	$ 6,272	$ 161,520	$ 47,893	$ 154,296	$ 6,379	$ 1,344,753	$ 954,793	$ 389,960
2008		428,261	6,278	165,340	39,777	80,684	6,332	726,672	352,525	374,147
2009		442,109	4,301	179,156	27,807	11,453	6,568	671,394	310,310	361,084
2010		474,682	4,304	159,064	15,554	6,266	6,769	666,639	319,197	347,442
2011		442,874	2,982	158,981	9,377	1,222	6,982	622,418	289,186	333,232
2012–2016		2,166,446	14,906	764,721	71,842	1,392	37,308	3,056,615	1,615,124	1,441,491
2017–2021		1,888,475	14,903	626,814	7,359	183	37,783	2,575,517	1,522,364	1,053,153
2022–2026		1,581,992	14,905	397,050	4,734		37,785	2,036,466	1,350,499	685,967
2027–2031		1,241,619	14,901	230,960			37,789	1,525,269	1,137,990	387,279
2032–2036		868,908	2,979				37,779	909,666	756,630	153,036
2037–2041		211,611					15,118	226,729	210,215	16,514
Total future debt service	**551,856**	**10,163,514**	**86,731**	**2,843,606**	**224,343**	**255,496**	**236,592**	**14,362,138**	**$8,818,833**	**$5,543,305**
Less: Interest component of future payments	(1,856)	(4,320,574)	(35,916)	(1,020,854)	(34,626)	(6,917)	(122,562)	(5,543,305)		
Principal portion of future payments	**550,000**	**5,842,940**	**50,815**	**1,822,752**	**189,717**	**248,579**	**114,030**	**8,818,833**		
Adjusted by:										
Unamortized deferred financing costs		(57,900)					(6,152)	(64,052)		
Unamortized bond premium		118,921					2,546	121,467		
Total debt	**$550,000**	**$ 5,903,961**	**$50,815**	**$1,822,752**	**$189,717**	**$248,579**	**$110,424**	**$ 8,876,248**		

Long-term debt does not include $939.9 million and $305.6 million of defeased liabilities at June 30, 2006 and 2005, respectively. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net assets.

13. OTHER POST EMPLOYMENT BENEFITS

Employees who meet specific requirements may continue their medical and dental benefits into retirement and receive University contributions for those benefits. There were approximately 41,000 retirees eligible to receive such benefits at June 30, 2006 and 39,600 retirees at June 30, 2005. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors was $211.3 million and $192.6 million for the years ended June 30, 2006 and 2005, respectively.

14. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by campus foundations.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2006				
Endowments	$ 843,599	$ 1,536,840	$ 31,638	$ 2,412,077
Funds functioning as endowments		1,945,623	1,147,096	3,092,719
Annuity and life income	29,108	8,027		37,135
Gifts		751,982	19,406	771,388
University endowments and gifts	**$872,707**	**$4,242,472**	**$1,198,140**	**$6,313,319**
At June 30, 2005				
Endowments	$ 794,173	$ 1,381,472	$ 29,100	$ 2,204,745
Funds functioning as endowments		1,777,878	1,055,491	2,833,369
Annuity and life income	29,324	8,092		37,416
Gifts		679,497	18,350	697,847
University endowments and gifts	**$823,497**	**$3,846,939**	**$1,102,941**	**$5,773,377**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $1.54 billion and $1.38 billion at June 30, 2006 and 2005, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $184.9 million and $187.1 million for the years ended June 30, 2006 and 2005, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $77.9 million and $71.2 million for the years ended June 30, 2006 and 2005, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $481.5 million and $489.4 million at June 30, 2006 and 2005, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2006				
Endowments	$ 1,429,854	$ 696,569		$ 2,126,423
Funds functioning as endowments		634,595		634,595
Annuity and life income	97,031	124,050		221,081
Gifts		676,392	$ 16,378	692,770
Campus foundations' endowments and gifts	**$1,526,885**	**$2,131,606**	**$16,378**	**$3,674,869**
At June 30, 2005				
Endowments	$ 1,248,942	$ 522,933		$ 1,771,875
Funds functioning as endowments		596,407		596,407
Annuity and life income	111,296	88,643		199,939
Gifts		665,378	$ 16,343	681,721
Campus foundations' endowments and gifts	**$1,360,238**	**$1,873,361**	**$16,343**	**$3,249,942**

The campus foundations provided grants to the University's campuses totaling $416.2 million and $343.4 million, respectively, during the years ended June 30, 2006 and 2005.

15. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in the UCRS. The UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with University and employee contributions; the University of California Retirement Savings Program that includes three defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement.

University of California Retirement Plan

The University of California Retirement Plan (UCRP) provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for a year or more. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a 36-month period.

Members' contributions to UCRP are accounted for separately and accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

At June 30, 2006, plan membership totaled 193,329, comprised of 122,317 active members, 25,570 inactive members who are terminated vested employees entitled to benefits, but not yet receiving them and 45,442 retirees and beneficiaries currently receiving benefits. The active members include 69,478 current employees who are fully vested. The active members also include 52,839 nonvested current employees covered by the plan. A total of 26,978 terminated nonvested employees are not members of the plan, but are eligible for a refund.

For financial reporting purposes, pension expense of the UCRP is equivalent to the University's required contributions, as actuarially determined. As discussed below, UCRP has actuarially determined assets in excess of liabilities and no contributions were required. Accordingly, the University recorded no pension expense related to UCRP for the years ended June 30, 2006 and 2005.

The Regents' funding policy provides for actuarially determined contributions at rates that provide for sufficient assets to be available when benefits are due. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the state of California.

Employee contributions may be required to be made to the UCRP. The rate of employee contributions is established annually pursuant to The Regents' funding policy, as a percentage of covered wages, recommended and certified by an enrolled, independent actuary and approved by The Regents, the plan's trustee. During the years ended June 30, 2006 and 2005, the UCRP had no required employee contributions. For the years ended June 30, 2006 and 2005, there were no employer contributions, annual pension costs or net pension obligations.

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation, which is the latest available information, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.5–6.5 percent per year;
- projected inflation at 4 percent;
- future life expectancy based upon recent group annuitant experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2006 was one year.

The supplemental schedule of funding progress is as follows:

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
June 30, 2006	$41,972,000	$40,302,000	$1,670,000	104.1 %	$8,259,000	20.2 %
June 30, 2005	41,085,000	37,252,000	3,833,000	110.3	8,150,000	47.0
June 30, 2004	41,293,000	35,034,000	6,259,000	117.9	7,835,000	79.9

In conjunction with the selection of LANS as the successor contractor to the University for the management of the Los Alamos National Laboratory effective June 1, 2006, the assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS are expected to be transferred to the LANS plan at a future date provided all required and advisable regulatory rulings and approvals are obtained. For reporting purposes, these transitioning employees are included as active members in the UCRP membership information as of June 30, 2006. The actuarial accrued liability associated with the transitioning employees who will not be retained in the UCRP is estimated to be approximately $1.4 billion. The amount of the assets to be retained in the UCRP for LANL members who have retired or are inactive, and the amount of the assets that may be transferred to the LANS plan for the transitioning employees who elected to participate in the LANS plan, is not currently known. The amounts will depend on the assumptions used and future discussions with the DOE. As a result, the supplemental schedule of funding progress includes both assets and liabilities for members who have elected to transfer to the LANS plan.

University of California Retirement Savings Program

The University of California Retirement Savings Program includes three defined contribution plans providing savings incentives and additional retirement security that are generally available to all University employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment, or death. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

Defined Contribution Plan

The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. Pretax contributions are fully vested and are mandatory for all employees who are members of the UCRP, as well as Safe Harbor participants—part-time, seasonal and temporary employees who are not covered by Social Security. For UCRP members, monthly employee contributions range from approximately 2.0 percent to 4.0 percent of covered wages depending upon whether wages are below or above the Social Security wage base. For Safe Harbor participants, monthly employee contributions are 7.5 percent of covered wages.

The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. The University may also make contributions in behalf of certain members of management. Employer contributions to the DC Plan were $11.2 million and $4.1 million for the years ended June 30, 2006 and 2005, respectively.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (the 403(b) Plan) accepts pretax contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $6.7 million for the year ended June 30, 2006. There were no employer contributions to the 403(b) Plan for the year ended June 30, 2005.

457(b) Deferred Compensation Plan

The University has also established a 457(b) Deferred Compensation Plan (the 457(b) Plan) to accept pretax contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 457(b) Plan were $2.8 million for the year ended June 30, 2006. There were no employer contributions to the 457(b) Plan for the year ended June 30, 2005.

Participants in the DC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest contributions in, and transfer plan accumulations to, certain external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is shown separately in the statement of plans' fiduciary net assets.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan. The University contributed to the California Public Employee Retirement System on behalf of these UC–PERS members. At June 30, 2006 there are 773 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The cost of contributions made to the plan is borne entirely by the University and the DOE laboratories. The University and DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits and the qualified status of the plan.

Additional information on the retirement plans can be obtained from the 2005-2006 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS–VERIP.

16. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding and for which medical center revenue is pledged in support of revenue bonds are related to certain of the University's medical centers. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the years ended June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2006					
Bonds outstanding	$ 347,295		$ 286,585	$ 58,153	$ 94,895
Bonds due serially through	2026		2039	2019	2032
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 334,936	$ 207,326	$ 357,004	$ 246,960	$ 419,606
Capital assets, net	737,738	237,446	1,243,184	306,120	502,826
Other assets	17,528		75,427	2,856	11,235
Total assets	**1,090,202**	**444,772**	**1,675,615**	**555,936**	**933,667**
Current liabilities	134,219	75,205	174,462	86,205	146,778
Long-term debt	344,428	14,604	402,598	77,719	167,317
Other noncurrent liabilities					55,300
Total liabilities	**478,647**	**89,809**	**577,060**	**163,924**	**369,395**
Invested in capital assets, net of debt	375,358	215,626	926,769	203,746	323,018
Restricted	8,622		67,556		6,790
Unrestricted	227,575	139,337	104,230	188,266	234,464
Total net assets	**$ 611,555**	**$354,963**	**$1,098,555**	**$392,012**	**$ 564,272**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 863,715	$ 477,254	$ 1,048,255	$ 614,675	$ 1,269,050
Operating expenses	(745,487)	(400,208)	(929,623)	(504,506)	(1,103,137)
Depreciation expense	(53,560)	(15,724)	(44,266)	(24,866)	(52,171)
Operating income	**64,668**	**61,322**	**74,366**	**85,303**	**113,742**
Nonoperating revenues (expenses)	(6,791)	3,092	(4,225)	(1,508)	(18,099)
Income before other changes in net assets	**57,877**	**64,414**	**70,141**	**83,795**	**95,643**
State and federal capital appropriations			20,180	3,403	
Health systems suppport	(16,173)	(32,994)	(24,600)	(22,824)	(24,753)
Transfers from University, net	2,407	51,518	83,552	215	
Other, including donated assets			14,289	1,819	2,854
Increase in net assets	**44,111**	**82,938**	**163,562**	**66,408**	**73,744**
Net assets–June 30, 2005	567,444	272,025	934,993	325,604	490,528
Net assets–June 30, 2006	**$ 611,555**	**$354,963**	**$1,098,555**	**$392,012**	**$ 564,272**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 94,752	$ 72,956	$ 121,140	$ 52,625	$ 145,244
Noncapital financing activities	(14,190)	(32,837)	(24,600)	(22,824)	(40,479)
Capital and related financing activities	(96,900)	(27,642)	(78,734)	(41,803)	(99,301)
Investing activities	6,085	4,201	32,798	6,569	5,843
Net increase (decrease) in cash	**(10,253)**	**16,678**	**50,604**	**(5,433)**	**11,307**
Cash and cash equivalents–June 30, 2005	153,105	100,700	79,557	124,455	144,248
Cash and cash equivalents–June 30, 2006	**$ 142,852**	**$117,378**	**$ 130,161**	**$119,022**	**$ 155,555**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2005					
Bonds outstanding	$ 357,565		$ 287,185	$ 61,725	$ 96,700
Bonds due serially through	2026		2039	2019	2032
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 327,479	$ 177,630	$ 287,710	$ 221,360	$ 381,971
Capital assets, net	709,223	180,814	1,111,381	291,788	415,640
Other assets	10,145		102,471	5,859	11,295
Total assets	**1,046,847**	**358,444**	**1,501,562**	**519,007**	**808,906**
Current liabilities	129,696	66,709	148,168	112,204	119,212
Long-term debt	349,707	19,710	418,401	81,199	121,812
Other noncurrent liabilities					77,354
Total liabilities	**479,403**	**86,419**	**566,569**	**193,403**	**318,378**
Invested in capital assets, net of debt	342,183	153,456	784,434	186,354	281,336
Restricted	8,551		95,022		6,704
Unrestricted	216,710	118,569	55,537	139,250	202,488
Total net assets	**$ 567,444**	**$272,025**	**$ 934,993**	**$325,604**	**$ 490,528**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 819,792	$ 454,799	$ 961,639	$ 535,802	$1,105,687
Operating expenses	(713,805)	(375,867)	(897,215)	(457,503)	(979,033)
Depreciation expense	(49,389)	(15,201)	(44,554)	(20,892)	(51,434)
Operating income	**56,598**	**63,731**	**19,870**	**57,407**	**75,220**
Nonoperating revenues (expenses)	(13,211)	126	(10,658)	(2,467)	(2,702)
Income before other changes in net assets	**43,387**	**63,857**	**9,212**	**54,940**	**72,518**
State and federal capital appropriations				8,894	
Health systems suppport	(16,984)	(24,633)	(24,072)	(22,684)	(33,029)
Transfers (to) from University, net	11,098	44,691	76,144	(531)	
Other, including donated assets			14,359		5,327
Increase in net assets	**37,501**	**83,915**	**75,643**	**40,619**	**44,816**
Net assets–June 30, 2004	529,943	188,110	859,350	284,985	445,712
Net assets–June 30, 2005	**$ 567,444**	**$272,025**	**$ 934,993**	**$325,604**	**$ 490,528**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 99,109	$ 84,785	$ 84,176	$ 92,005	$ 133,136
Noncapital financing activities	(14,114)	(24,905)	(28,184)	(22,684)	(33,029)
Capital and related financing activities	(99,459)	(9,418)	(85,960)	(39,451)	(77,103)
Investing activities	4,754	2,054	45,020	3,279	5,738
Net increase (decrease) in cash	**(9,710)**	**52,516**	**15,052**	**33,149**	**28,742**
Cash and cash equivalents–June 30, 2004	162,815	48,184	64,505	91,306	115,506
Cash and cash equivalents–June 30, 2005	**$ 153,105**	**$100,700**	**$ 79,557**	**$124,455**	**$ 144,248**

Summarized financial information for each medical center is from their separately audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net assets. However, in the medical center's separately audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue.

Multiple purpose and housing system projects including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

There are no significant accounting and reporting requirements associated with the specific activities financed by the research facilities revenue bonds or the certificates of participation.

Additional information on the individual University of California Medical Centers and the University of California Multiple Purpose Projects can be obtained from their separate June 30, 2006 audited financial statements.

17. CAMPUS FOUNDATION INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the years ended June 30, 2006 and 2005 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2006					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 84,425	$ 146,670	$ 274,073	$ 271,665	$ 776,833
Noncurrent assets	930,409	479,766	1,088,196	956,130	3,454,501
Total assets	**1,014,834**	**626,436**	**1,362,269**	**1,227,795**	**4,231,334**
Current liabilities	40,262	7,194	184,442	149,882	381,780
Noncurrent liabilities	75,872	13,618	44,609	40,586	174,685
Total liabilities	**116,134**	**20,812**	**229,051**	**190,468**	**556,465**
Restricted	897,310	605,353	1,130,822	1,025,006	3,658,491
Unrestricted	1,390	271	2,396	12,321	16,378
Total net assets	**$ 898,700**	**$605,624**	**$1,133,218**	**$ 1,037,327**	**$ 3,674,869**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 86,060	$ 71,463	$ 110,987	$ 120,486	$ 388,996
Operating expenses	(69,537)	(121,715)	(119,140)	(118,971)	(429,363)
Operating income (loss)	**16,523**	**(50,252)**	**(8,153)**	**1,515**	**(40,367)**
Nonoperating revenues	96,868	42,444	88,712	77,962	305,986
Income (loss) before other changes in net assets	**113,391**	**(7,808)**	**80,559**	**79,477**	**265,619**
Permanent endowments	23,070	18,197	36,325	81,716	159,308
Increase in net assets	**136,461**	**10,389**	**116,884**	**161,193**	**424,927**
Net assets–June 30, 2005	762,239	595,235	1,016,334	876,134	3,249,942
Net assets–June 30, 2006	**$ 898,700**	**$605,624**	**$1,133,218**	**$ 1,037,327**	**$3,674,869**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 3,213	$ (32,374)	$ 5,490	$ (24,000)	$ (47,671)
Noncapital financing activities	18,813	18,197	36,325	68,126	141,461
Investing activities	(21,344)	53,213	(41,192)	(38,112)	(47,435)
Net increase in cash	**682**	**39,036**	**623**	**6,014**	**46,355**
Cash and cash equivalents–June 30, 2005	456	54,767	837	23,609	79,669
Cash and cash equivalents–June 30, 2006	**$ 1,138**	**$ 93,803**	**$ 1,460**	**$ 29,623**	**$ 126,024**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2005					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 97,857	$ 129,136	$ 291,558	$ 271,842	$ 790,393
Noncurrent assets	765,321	488,534	952,515	786,318	2,992,688
Total assets	**863,178**	**617,670**	**1,244,073**	**1,058,160**	**3,783,081**
Current liabilities	44,046	9,033	184,527	143,557	381,163
Noncurrent liabilities	56,893	13,402	43,212	38,469	151,976
Total liabilities	**100,939**	**22,435**	**227,739**	**182,026**	**533,139**
Restricted	761,120	594,960	1,015,041	862,478	3,233,599
Unrestricted	1,119	275	1,293	13,656	16,343
Total net assets	**$ 762,239**	**$595,235**	**$1,016,334**	**$ 876,134**	**$3,249,942**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 58,121	$ 64,297	$ 94,383	$ 123,106	$ 339,907
Operating expenses	(54,220)	(75,451)	(101,609)	(123,443)	(354,723)
Operating income (loss)	**3,901**	**(11,154)**	**(7,226)**	**(337)**	**(14,816)**
Nonoperating revenues	62,849	31,450	61,593	56,419	212,311
Income before other changes in net assets	**66,750**	**20,296**	**54,367**	**56,082**	**197,495**
Permanent endowments	31,266	14,591	31,313	44,925	122,095
Increase in net assets	**98,016**	**34,887**	**85,680**	**101,007**	**319,590**
Net assets–June 30, 2004	664,223	560,348	930,654	775,127	2,930,352
Net assets–June 30, 2005	**$ 762,239**	**$595,235**	**$1,016,334**	**$ 876,134**	**$3,249,942**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ (10,167)	$ (11,264)	$ (11,535)	$ 4,531	$ (28,435)
Noncapital financing activities	21,014	14,591	31,313	40,436	107,354
Investing activities	(11,509)	(5,530)	(22,873)	(48,029)	(87,941)
Net decrease in cash	**(662)**	**(2,203)**	**(3,095)**	**(3,062)**	**(9,022)**
Cash and cash equivalents–June 30, 2004	1,118	56,970	3,932	26,671	88,691
Cash and cash equivalents–June 30, 2005	**$ 456**	**$ 54,767**	**$ 837**	**$ 23,609**	**$ 79,669**

18. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $2.70 billion and $3.14 billion at June 30, 2006 and 2005, respectively.

The University has also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2006 totaled $2.22 billion, $614.6 million and $1.61 billion for the University and the UCRS, respectively. The commitments at June 30, 2005 totaled $1.21 billion, $353.3 million and $854.0 million for the University and the UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2006 and 2005 were $132.7 million and $134.1 million, respectively. The terms of operating leases extend through the year ending 2040.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows:

(in thousands of dollars)

	MINIMUM ANNUAL LEASE PAYMENTS
Year Ending June 30	
2007	$ 94,015
2008	78,244
2009	63,539
2010	43,614
2011	29,914
2012–2016	36,227
2017–2021	3,334
2022–2026	3,622
2027–2031	4,067
2032–2036	4,641
2037–2040	3,692
Total	**$364,909**

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University and the campus foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

The current University contract to manage the Lawrence Livermore National Laboratory for the National Nuclear Security Administration of the United States Department of Energy is scheduled to expire on September 30, 2007. The federal government is currently conducting a competition for a successor contractor to the University's contract. The United States Department of Energy anticipates that a decision will be made in February or March of calendar year 2007 and that the new contract will become effective October 1, 2007.

The Regents voted at their September 2006 meeting to participate in the competition as part of a joint venture in the form of a limited liability company. If the University's team is awarded the successor contract, the separate corporate entity is expected to be reported as a joint venture using the equity method in the University's financial statements.

Regardless of whether the University's team is awarded the successor contract, the gross revenues and expenses associated with the successor contract are not expected to be reported in the University's statement of revenues, expenses and changes in net assets, except for the University's share of the contract management fee. In additon, UCRP assets and liabilities attributable to certain transitioning employees who elect employment with the successor contractor are expected to be transferred to a successor pension plan at a future date provided all required and advisable regulatory rulings and approvals are obtained.

Gross revenues and expenses associated with the Lawrence Livermore National Laboratory contract recorded by the University for the year ended June 30, 2006 were $1.65 billion and $1.64 billion, respectively. For the year ended June 30, 2005, gross revenues and expenses were $1.64 billion and $1.63 billion, respectively. The difference, $14.0 million in 2006 and $13.8 million in 2005, represents the University's contract management fee and reimbursed costs incurred by the University, but not at the Laboratory. The amount of UCRP assets and liabilities that may be transferred to a successor pension plan is unknown. It is dependent on future elections to be made by the approximately 7,500 active members currently working at the Lawrence Livermore National Laboratory, the assumptions used and future discussions with the DOE.

CAMPUS FACTS IN BRIEF 2006

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration [3]
STUDENTS											
Undergraduate fall enrollment	23,482	22,831	20,061	24,811	841	14,649	20,680		18,086	13,625	
Graduate fall enrollment	10,076	6,806	4,963	12,410	37	1,973	5,258	4,174	2,930	1,387	
Total fall enrollment	**33,558**	**29,637**	**25,024**	**37,221**	**878**	**16,622**	**25,938**	**4,174**	**21,016**	**15,012**	
University Extension enrollment	34,601	48,124	26,279	89,166		27,731	35,730		7,072	18,515	15,170
DEGREES CONFERRED [1]											
Bachelor	6,767	5,735	5,242	7,336		3,080	5,042	11	4,658	2,991	
Advanced	3,264	1,664	1,241	4,094		552	1,387	703	919	363	
Cumulative	520,189	184,649	109,174	435,660		64,356	110,737	44,535	164,857	69,193	
FACULTY AND STAFF (full-time equivalents)	13,551	19,718	11,722	26,802	488	4,368	17,137	16,721	6,005	4,362	3,123
LIBRARY COLLECTIONS (volumes)	10,145,192	3,549,004	2,548,573	8,165,855	43,357	2,435,205	3,243,011	824,852	2,925,012	1,475,344	
CAMPUS LAND AREA (in acres)	6,767	7,098	1,521	419	7,045	1,911	2,141	181	989	6,088	16

CAMPUS FINANCIAL FACTS [2] (IN THOUSANDS OF DOLLARS)

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration [3]
OPERATING EXPENSES BY FUNCTION											
Instruction	$ 475,375	$ 473,975	$ 383,533	$ 869,486	$ 9,020	$ 119,448	$ 395,071	$ 161,575	$ 180,150	$ 108,804	$ 36,115
Research	390,596	373,665	204,532	574,872	5,410	91,810	509,533	558,172	126,480	87,920	112,959
Public service	50,986	61,228	11,117	67,482	2,994	6,206	16,601	60,399	6,352	14,979	102,500
Academic support	95,874	124,688	88,829	257,666	5,985	34,415	152,207	222,821	31,545	25,703	99,468
Student services	105,902	53,802	47,816	58,775	4,052	32,097	45,291	13,707	48,837	40,502	19,502
Institutional support	108,336	76,983	40,110	114,488	17,104	37,224	85,058	80,921	33,266	29,754	140,921
Operation & maintenance of plant	62,193	86,948	36,537	74,468	5,882	23,366	59,699	49,113	26,288	22,277	5,111
Student financial aid	65,876	30,854	49,448	58,528	3,522	28,321	41,425	35,408	37,610	10,691	1,952
Medical centers		755,761	401,135	906,671			524,314	1,130,762			(43,372)
Auxiliary enterprises	90,896	72,229	64,487	206,510	4,351	38,156	86,366	24,253	64,026	68,604	(327)
Depreciation & amortization	123,195	153,798	89,114	175,956	8,859	46,394	158,418	127,925	60,389	40,549	12,426
Other [4]	19,893	3,788	4,632	22,671	208	2,448	10,942	16,570	5,265	1,873	372
Total	**$1,589,122**	**$2,267,719**	**$1,421,290**	**$3,387,573**	**$ 67,387**	**$459,885**	**$2,084,925**	**$2,481,626**	**$620,208**	**$451,656**	**$ 487,627**
GRANTS AND CONTRACTS REVENUE											
Federal government	$ 334,153	$ 295,022	$ 201,679	$ 601,538	$ 4,929	$ 84,241	$ 525,100	$ 527,983	$ 126,003	$ 84,338	$ 29,105
State government	72,650	88,170	14,635	41,473	21,756	10,682	27,992	44,142	9,134	8,392	84,480
Local government	2,320	12,192	4,501	32,796		2,347	9,632	92,640	1,019	170	5,010
Private	101,438	79,799	53,233	134,248	316	14,142	123,750	168,488	30,189	22,635	16,114
Total	**$ 510,561**	**$ 475,183**	**$ 274,048**	**$ 810,055**	**$ 27,001**	**$111,412**	**$ 686,474**	**$ 833,253**	**$166,345**	**$115,535**	**$ 134,709**
UNIVERSITY ENDOWMENTS											
Endowments	$ 1,763,734	$ 436,394	$ 52,177	$ 1,125,539	$ 17,579	$ 29,686	$ 144,692	$ 774,164	$ 69,944	$ 51,765	$1,076,256
Annual income distribution	68,334	16,607	2,213	30,688	597	1,214	5,053	30,528	2,408	2,033	25,250
CAMPUS FOUNDATIONS' ENDOWMENTS											
Endowments	$ 818,413	$ 139,497	$ 140,431	$ 977,588	$ 1,840	$ 68,570	$ 302,530	$ 403,460	$ 84,379	$ 45,391	
CAPITAL ASSETS											
Capital assets, at net book value	$ 2,139,485	$ 2,244,630	$ 1,569,961	$ 3,830,490	$305,438	$ 695,174	$ 1,943,627	$ 2,125,617	$ 968,494	$ 702,547	$ 139,538
Capital expenditures	212,328	309,134	301,007	434,809	90,725	86,893	285,276	250,659	114,104	54,123	19,410

[1] As of academic year 2004-05.

[2] Excludes DOE laboratories.

[3] Includes expenses for Systemwide education and research programs, Systemwide support services and administration.

[4] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

THE REGENTS AND OFFICERS OF THE UNIVERSITY OF CALIFORNIA

APPOINTED REGENTS (in order of accession to the Board)

Gerald L. Parsky, *Los Angeles*

Peter Preuss, *La Jolla*

Joanne Corday Kozberg, *Los Angeles*

Judith L. Hopkinson, *Santa Barbara*

Sherry L. Lansing, *Los Angeles*

John J. Moores, *San Diego*

Odessa P. Johnson, *Modesto*

George M. Marcus, *Palo Alto*

Monica C. Lozano, *Los Angeles*

Norman J. Pattiz, *Culver City*

Richard C. Blum, *San Francisco*

Frederick Ruiz, *Dinuba*

Paul D. Wachter, *Santa Monica*

Eddie Island, *Santa Monica*

Russell S. Gould, *Sacramento*

Leslie Tang Schilling, *San Francisco*

Maria C. Ledesma, *Los Angeles*

William De La Pena, *Montebello*

Bruce D. Varner, *Riverside*

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Cruz Bustamante, *Lieutenant Governor*

Fabian Núñez, *Speaker of the Assembly*

Jack O'Connell, *State Superintendent of Public Instruction*

Jefferson Coombs, *President, Alumni Associations of the University of California*

Steve Schreiner, *Vice President, Alumni Associations of the University of California*

Robert C. Dynes, *President of the University*

REGENTS DESIGNATE (non-voting)

Eleanor V. Brewer, *Secretary, Alumni Associations of the University of California*

Phillip J. Bugay, *Treasurer, Alumni Associations of the University of California*

Benjamin Allen, *Student Regent Designate*

FACULTY REPRESENTATIVES (non-voting)

John B. Oakley, *Chair, Academic Senate*

Michael T. Brown, *Vice Chair, Academic Senate*

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Gerald L. Parsky, *Chairman*

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Jeffrey A. Blair, *Acting General Counsel*

Anne Shaw, *Acting Secretary*

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Bruce B. Darling, *Executive Vice President—University Affairs*

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William H. Gurtner, *Vice President—Clinical Services Development*

Lawrence C. Hershman, *Vice President—Budget*

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France A. Córdova, *Riverside*

Marye Anne Fox, *San Diego*

J. Michael Bishop, M.D., *San Francisco*

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George Blumenthal *(acting), Santa Cruz*

DIRECTORS OF DOE LABORATORIES

Steven Chu, *Ernest Orlando Lawrence Berkeley National Laboratory*

George H. Miller, *Lawrence Livermore National Laboratory*

EXHIBIT 7

Governmental Cost Funds
Transportation Funds
Balance Sheet

June 30, 2005
(Amounts in thousands)

	Aeronautics Account: Aeronautics Account (0041)	Aeronautics Account: Local Airport Loan Account (0052)	Bicycle Transportation Account (0045)
ASSETS			
Cash in State Treasury and Agency Accounts	$ 1	$ 78	$ 1
Deposits in Surplus Money Investment Fund	18,356	10,938	26,984
Receivables	—	956	—
Due From Other Funds	370	82	190
Due From Other Governments	—	—	—
Prepaid Expenses	—	—	—
Advances and Loans Receivable	1,400	—	—
Interfund Loans Receivable	—	—	—
Other Assets	—	—	—
Total Assets	$ 20,127	$ 12,054	$ 27,175
LIABILITIES			
Accounts Payable	$ 118	$ —	$ —
Due to Other Funds	9,034	—	12
Due to Other Governments	—	—	—
Accrued Interest Payable	—	—	—
Advance Collections	—	—	—
Deposits	—	—	—
Advances From Other Funds	—	—	—
Other Liabilities	—	—	—
Total Liabilities	9,152	—	12
FUND BALANCE			
Reserved for Encumbrances	9,042	—	23,172
Reserved for Unencumbered Balances of Continuing Appropriations	3	—	15
Contingency Reserve for Economic Uncertainties	1,930	12,054	3,976
Unreserved-Undesignated	—	—	—
Total Fund Balance	10,975	12,054	27,163
Total Liabilities and Fund Balance	$ 20,127	$ 12,054	$ 27,175

			Motor Vehicle Account			
Highway User's Tax Account (0062)	Mass Transit Revolving Account (0055)	Motor Carriers Safety Improvement Fund (0293)	Motor Vehicle Account (0044)	New Motor Vehicle Board Account (0054)	Motor Vehicle Fuel Account (0061)	Motor Vehicle License Fee Account (0064)
$ 166	$ —	$ 1	$ 101,608	$ 2,385	$ 42,794	$ —
—	1,000	2,629	560,967	—	4,140	16,259
—	—	—	19,758	—	310,523	3,822
364,369	—	55	87,141	3	9,444	6,977
—	—	—	2,482	—	—	—
—	—	—	27,410	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	40	—	—	—
$ 364,535	**$ 1,000**	**$ 2,685**	**$ 799,406**	**$ 2,388**	**$ 366,901**	**$ 27,058**
$ —	$ —	$ —	$ 96,818	$ —	$ 2,259	$ —
237,212	—	23	144,807	301	364,642	4,811
127,152	—	—	3,082	—	—	23,735
—	—	—	—	—	—	—
—	—	—	7,879	—	—	—
—	—	—	911	—	—	—
—	—	—	—	—	—	—
—	—	—	16,142	—	—	—
364,364	**—**	**23**	**269,639**	**301**	**366,901**	**28,546**
—	—	—	105,556	—	—	43
—	—	—	11,600	—	—	5,807
171	1,000	2,662	412,611	2,087	—	—
—	—	—	—	—	—	(7,338)
171	**1,000**	**2,662**	**529,767**	**2,087**	**—**	**(1,488)**
$ 364,535	**$ 1,000**	**$ 2,685**	**$ 799,406**	**$ 2,388**	**$ 366,901**	**$ 27,058**

(Continued)

Governmental Cost Funds
Transportation Funds
Balance Sheet

June 30, 2005
(Amounts in thousands)

	Motor Vehicle Transportation Tax Account (0063)	Pedestrian Safety Account (2500)	Public Transportation Account (0046)
ASSETS			
Cash in State Treasury and Agency Accounts	$ 1	$ 1	$ 9
Deposits in Surplus Money Investment Fund	1,467	4,608	100,306
Receivables	—	—	255
Due From Other Funds	10	34	76,006
Due From Other Governments	—	—	—
Prepaid Expenses	—	—	20
Advances and Loans Receivable	—	—	40,000
Interfund Loans Receivable	—	—	—
Other Assets	—	—	—
Total Assets	**$ 1,478**	**$ 4,643**	**$ 216,596**
LIABILITIES			
Accounts Payable	$ —	$ —	$ 3,990
Due to Other Funds	—	374	6,319
Due to Other Governments	—	—	—
Accrued Interest Payable	—	—	—
Advance Collections	—	—	—
Deposits	—	—	—
Advances From Other Funds	—	—	—
Other Liabilities	—	—	—
Total Liabilities	**—**	**374**	**10,309**
FUND BALANCE			
Reserved for Encumbrances	—	3,533	111,449
Reserved for Unencumbered Balances of Continuing Appropriations	—	—	36,000
Contingency Reserve for Economic Uncertainties	1,478	736	58,838
Unreserved-Undesignated	—	—	—
Total Fund Balance	**1,478**	**4,269**	**206,287**
Total Liabilities and Fund Balance	**$ 1,478**	**$ 4,643**	**$ 216,596**

* Expenditures in this fund are reported on a modified cash basis consistent with the State Transportation Improvement Program Fund Estimate.

** Expenditures in this fund are reported on a cash basis consistent with the financing plan established by Chapter 907, Statutes of 2001 (AB 1171).

State Highway Account: Local Transportation Loan Account (2501)	State Highway Account: State Highway Account * (0042)	Toll Bridge Seismic Retrofit Account ** (0650)	Transportation Revolving Account (0048)	Total
$ —	$ 22,612	$ 978	$ —	$ 170,635
2,336	572,046	336,308	362,855	2,021,199
12	30,808	—	29,757	395,891
17	292,195	15,403	1,310,184	2,162,480
—	—	—	—	2,482
—	3,335	—	32,476	63,241
—	1,400,000	69,000	—	1,510,400
—	20,000	—	—	20,000
—	—	—	—	40
$ 2,365	**$ 2,340,996**	**$ 421,689**	**$ 1,735,272**	**$ 6,346,368**
$ —	$ 30,185	$ 3,415	$ 96,544	$ 233,329
—	254,408	52,941	19,175	1,094,059
—	3,176	—	121	157,266
—	—	—	—	—
—	5,176	—	—	13,055
—	10,221	—	—	11,132
—	—	—	1,565,800	1,565,800
—	5,944	—	53,632	75,718
—	**309,110**	**56,356**	**1,735,272**	**3,150,359**
—	973,839	786,510	—	2,013,144
—	2,278,886	—	—	2,332,311
2,365	—	—	—	499,908
—	(1,220,839)	(421,177)	—	(1,649,354)
2,365	**2,031,886**	**365,333**	**—**	**3,196,009**
$ 2,365	**$ 2,340,996**	**$ 421,689**	**$ 1,735,272**	**$ 6,346,368**

(Concluded)

Governmental Cost Funds
Transportation Funds
Statement of Operations

Year Ended June 30, 2005
(Amounts in thousands)

	Aeronautics Account		
	Aeronautics Account (0041)	Local Airport Loan Account (0052)	Bicycle Transportation Account (0045)
FUND BALANCE, JULY 1, 2004	$ 11,539	$ 9,493	$ 21,606
ADDITIONS			
Revenues	232	1,986	549
Transfers From Other Funds	6,991	—	7,200
Prior Year Revenue Adjustments	—	(922)	—
Other Additions	—	2,901	—
Total Additions	7,223	3,965	7,749
DEDUCTIONS			
Appropriation Expenditures			
State Operations	2,699	4	42
Local Assistance	5,053	1,400	2,571
Capital Outlay	—	—	—
Total Appropriation Expenditures	7,752	1,404	2,613
Transfers to Other Funds	30	—	—
Adjustments to Prior Year Appropriation Expenditures	5	—	(421)
Other Deductions	—	—	—
Total Deductions	7,787	1,404	2,192
FUND BALANCE, JUNE 30, 2005	$ 10,975	$ 12,054	$ 27,163

Highway User's Tax Account (0062)	Mass Transit Revolving Account (0055)	Motor Carriers Safety Improvement Fund (0293)	Motor Vehicle Account: Motor Vehicle Account (0044)	Motor Vehicle Account: New Motor Vehicle Board Account (0054)	Motor Vehicle Fuel Account (0061)	Motor Vehicle License Fee Account (0064)
$ 8	**$ 1,000**	**$ 2,309**	**$ 300,238**	**$ 2,369**	**$ —**	**$ 13**
4	—	1,664	1,952,352	1,474	3,368,645	530,161
3,275,452	—	39	6,129	—	141	2,984
—	—	—	345	—	63,172	109
—	7,702	—	—	—	—	—
3,275,456	**7,702**	**1,703**	**1,958,826**	**1,474**	**3,431,958**	**533,254**
1,018	—	1,350	1,717,133	1,760	40,841	288,245
1,140,409	7,702	—	10,111	—	—	245,562
—	—	—	14,787	—	—	1,009
1,141,427	**7,702**	**1,350**	**1,742,031**	**1,760**	**40,841**	**534,816**
2,133,866	—	—	6,485	—	3,391,117	—
—	—	—	(19,219)	(4)	—	(61)
—	—	—	—	—	—	—
3,275,293	**7,702**	**1,350**	**1,729,297**	**1,756**	**3,431,958**	**534,755**
$ 171	**$ 1,000**	**$ 2,662**	**$ 529,767**	**$ 2,087**	**$ —**	**$ (1,488)**

(Continued)

Governmental Cost Funds
Transportation Funds
Statement of Operations

Year Ended June 30, 2005
(Amounts in thousands)

	Motor Vehicle Transportation Tax Account (0063)	Pedestrian Safety Account (2500)	Public Transportation Account (0046)
FUND BALANCE, JULY 1, 2004	$ 1,457	$ 6,213	$ 165,460
ADDITIONS			
Revenues	32	124	3,046
Transfers From Other Funds	—	—	302,153
Prior Year Revenue Adjustments	(11)	—	—
Other Additions	—	—	—
Total Additions	21	124	305,199
DEDUCTIONS			
Appropriation Expenditures			
State Operations	—	39	116,260
Local Assistance	—	2,206	114,127
Capital Outlay	—	—	19,605
Total Appropriation Expenditures	—	2,245	249,992
Transfers to Other Funds	—	—	14,661
Adjustments to Prior Year Appropriation Expenditures	—	(177)	(281)
Other Deductions	—	—	—
Total Deductions	—	2,068	264,372
FUND BALANCE, JUNE 30, 2005	$ 1,478	$ 4,269	$ 206,287

* Expenditures in this fund are reported on a modified cash basis consistent with the State Transportation Improvement Program Fund Estimate.

** Expenditures in this fund are reported on a cash basis pursuant to statute, and consistent with the financing plan established by Chapter 907, Statutes of 2001 (AB 1171).

State Highway Account: Local Transportation Loan Account (2501)	State Highway Account: State Highway Account * (0042)	Toll Bridge Seismic Retrofit Account ** (0650)	Transportation Revolving Account (0048)	Total
$ 2,291	**$ 1,478,548**	**$ 752,854**	**$ —**	**$ 2,755,398**
63	1,014,847	132,140	—	7,007,319
—	2,275,584	6,886	—	5,883,559
11	734	(350)	—	63,088
—	—	80,000	6,297,577	6,388,180
74	**3,291,165**	**218,676**	**6,297,577**	**19,342,146**
—	2,093,640	120,001	—	4,383,032
—	202,235	—	—	1,731,376
—	379,641	486,196	—	901,238
—	**2,675,516**	**606,197**	**—**	**7,015,646**
—	155,822	—	—	5,701,981
—	(93,511)	—	—	(113,669)
—	—	—	6,297,577	6,297,577
—	**2,737,827**	**606,197**	**6,297,577**	**18,901,535**
$ 2,365	**$ 2,031,886**	**$ 365,333**	**$ —**	**$ 3,196,009**

(Concluded)